HOUSE OF COMMONS
CANADA

Budget 2000

New Era...New Plan

REPORT OF
THE STANDING
COMMITTEE ON
FINANCE

Maurizio Bevilacqua, MP
Chairman
December 1999

Also available on the Parliamentary Internet Parlementaire: http://www.parl.gc.ca

Available from Public Works and Government Services Canada — Publishing, Ottawa, Canada K1A 0S9

BUDGET 2000

NEW ERA... NEW PLAN

Report of the
Standing Committee on Finance

Maurizio Bevilacqua
Chair

December 1999

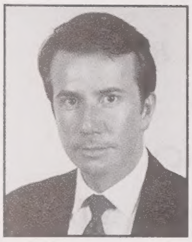
Publications Service

STANDING COMMITTEE ON FINANCE

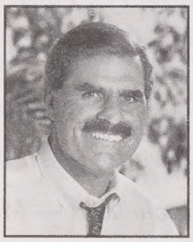
Maurizio Bevilacqua, M.P.
Chair
Vaughan—King—Aurora, ON
Liberal

Nick Discepola, M.P.
Vice-Chair
Vaudreuil—Soulanges, QC
Liberal

Richard Harris, M.P.
Vice-Chair
Prince George—Bulkley Valley, BC
Reform



Scott Brison, M.P.
Kings—Hants, NS
Progressive Conservative



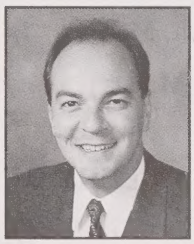
Roy Cullen, M.P.
Etobicoke North, ON
Liberal

Ken Epp, M.P.
Elk Island, AB
Reform

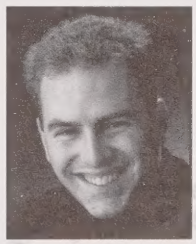
Roger Gallaway, M.P.
Sarnia—Lambton, ON
Liberal

Albina Guarnieri, M.P.
Mississauga East, ON
Liberal

Sophia Leung, M.P.
Vancouver Kingsway, BC
Liberal

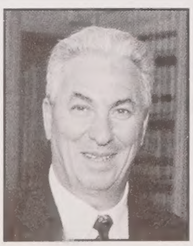


Yvan Loubier, M.P.
Saint-Hyacinthe—Bagot, QC
Bloc Québécois



Richard Marceau, M.P.
Charlesbourg, QC
Bloc Québécois

Hon. Lorne Nystrom, M.P.
Regina—Qu'Appelle, SK
New Democratic Party



Gary Pillitteri, M.P.
Niagara Falls, ON
Liberal

Karen Redman, M.P.
Kitchener Centre, ON
Liberal

Monte Solberg, M.P.
Medicine Hat, AB
Reform

Paul Szabo, M.P.
Mississauga South, ON
Liberal

OTHER MEMBERS WHO PARTICIPATED

Carolyn Bennett, M.P.	*(St. Paul's, ON)*
Libby Davies, M.P.	*(Vancouver East, BC)*
Pierre de Savoye	*(Portneuf, QC)*
Antoine Dubé, M.P.	*(Lévis-et-Chutes-de-la-Chaudière, QC)*
Gordon, Earle, M.P.	*(Halifax West, NS)*
Joe Fontana, M.P.	*(London North Centre, ON)*
Paul Forseth, M.P.	*(New Westminster — Coquitlam — Burnaby, BC)*
Bill Graham, M.P.	*(Toronto Centre — Rosedale, ON)*
Monique Guay, M.P.	*(Laurentides, QC)*
Jim Jones, M.P.	*(Markham, ON)*
Eric Lowther, M.P.	*(Calgary Centre, AB)*
Gary Lunn, M.P.	*(Saanich — Gulf Islands, BC)*
John McKay, M.P.	*(Scarborough East, ON)*
Grant McNally, M.P.	*(Dewdney — Alouette, BC)*
Réal Ménard, M.P.	*(Hochelaga — Maisonneuve, QC)*
Pauline Picard, M.P.	*(Drummond, QC)*
Jacques Saada, M.P.	*(Brossard — La Prairie, QC)*
Werner Schmidt, M.P.	*(Kelowna, BC)*
Guy St-Julien, M.P.	*(Abitibi — Baie-James — Nunavik, QC)*

CLERK OF THE COMMITTEE

Pat Steenberg

Researchers to the Committee
(Parliamentary Research Branch)

Odette Madore
Jean Soucy
Marion Wrobel

COMMITTEE MANDATE

Standing Order 83.1

Each year the Standing Committee on Finance shall be authorized to consider and make reports upon proposals regarding the budgetary policy of the government. Any report or reports thereon may be made no later than the tenth sitting day before the last normal sitting day in December, as set forth in Standing Order 28(2).

THE STANDING COMMITTEE ON FINANCE

has the honour to present its

FIRST REPORT

In accordance with its mandate under Standing Order 83.1, your Committee has studied proposals on the budgetary policy of the government and has agreed to report the following:

TABLE OF CONTENTS

Chairman's Foreword

Canada stands on the threshold of a new century. Within a month our nation will enter a new era, the new millennium.

This fall marked the sixth time that the House of Commons Standing Committee on Finance sought the advice of Canadians in advance of the federal budget. It was the third time that I have participated as Chairman of the Committee.

In just a short time I have seen the mood of Canadians change, becoming increasingly optimistic about their prospects for the future.

A New Era . . . A New Plan is the result of our continuing conversations with Canadians — a national dialogue that helped us understand our fellow citizens' values and priorities, and how the federal budget should reflect them.

Canadians want an agenda that will see them enjoy more opportunity, a higher standard of living and an even better quality of life in the new century. In order to achieve all this we need a clear vision for the future.

A New Era . . . A New Plan provides a road map to achieve that vision. This plan fosters sound financial management, promotes economic growth and a better quality of life by reducing taxes, makes our economy more competitive and ensures that Canadians will enjoy greater security and expanded opportunities.

It is my hope that this plan will inspire Canadians to confidently believe that tomorrow can indeed be better than today and, more importantly, that we all have an obligation to make it so.

As Chairman of the House of Commons Standing Committee on Finance, I would like to take this opportunity to thank the Members of the Committee for their continued dedication to the Pre-Budget Consultations process.

At the same time, I would like to thank the many witnesses who took the time to prepare briefs and appear before the Committee. As always, they faced this task with dedication and enthusiasm.

Finally, I would like to thank the staff of the Committee. It is only because of their work that these hearings and this Report could come to be. From the Committees and Legislative Services, I would like to thank Pat Steenberg, the Clerk of the Committee. Denyse Croteau, Karen Thriepland, Lise Tierney, Cal Piché and Sharron Scullion should also be thanked, as should the interpreters, sound technicians and other members of the House of Commons staff.

The Members of the Committee would also like to thank the research staff provided by the Parliamentary Research Branch. These include Odette Madore and Jean Soucy, assisted by Alexandre Laurin, Rose Pelletier and Nathalie Pothier.

As always, my special assistants, Jennifer Demers and Carole Fournier worked tirelessly and with great dedication during this entire process, keeping my office running and helping to produce this important Report.

A very special thank you goes to Marion G. Wrobel for his exceptional dedication and impressive contribution to the work of the Finance Committee.

CARPE DIEM

Maurizio Bevilacqua, M.P.

A NEW FISCAL AND ECONOMIC ENVIRONMENT

When this Committee issued its Pre-Budget Report two years ago, the economic prospects for Canada had already improved greatly. Since then, Canadians have enjoyed even better economic conditions, a situation consistent with the improved fiscal position of the government. As of September 1999, for example, Canadian GDP had grown uninterrupted for 14 straight months, and this was " . . . part of the longest uninterrupted string of monthly gains in over a decade, . . . "[1] Indeed, growth this year has not only been strong and consistent, it appears to be broadly based. These trends are no mere short-term anomalies. International organizations and the international media have recently begun to describe Canada in glowing terms, something unheard of for many years.

However, as events of past decades demonstrate, nothing should be taken for granted. This is only the fourth year in a row where economic growth has surpassed population growth. The memory of the last recession and our anemic recovery in the early part of the decade is still with us.

In addition, it is evident that Canada has not been able to close the productivity gap with the United States. This indicates that there still exist opportunities to improve the efficiency of the Canadian economy. The Canadian economy is not living up to its true potential. The failure to do so will limit our ability to increase the future standard of living of Canadians once we reach the peak of the economic cycle.

> *Mr. Chairman, in these — the closing days of the 20th century — Canada has a unique opportunity to take hold of its destiny. To translate better finances into better lives for all. To give Canadians what they have a right to expect: the promise of higher incomes and increased security.*
>
> **Paul Martin, *The Economic and Fiscal Update*, November 2, 1999**

Nevertheless, today's economic and financial environment offers an optimistic view of the future. This is, then, an appropriate moment to consider those actions that will consolidate past achievements, further strengthen our economic performance, increase prospects for the future and hence help to secure what many Canadians view as the essential character of our economy and society.

To summarize our recent strong economic and fiscal performance, consider some relevant facts:[2]

- Canada's economic performance exceeded expectations since the 1999 budget as a result of improved world conditions and a surge in domestic demand.
- The strength of domestic demand is broadly based.
- The unemployment rate in September was at its lowest level since June 1990. (In November, at 6.9%, the unemployment rate was the lowest since August 1981.)

1 Statistics Canada, *The Daily*, November 30, 1999.

2 Taken from *Economic and Fiscal Update*, November 2, 1999.

- Economic forecasts for 1999 growth have almost been doubled.
- At 12.4%, federal program spending as a proportion of GDP is at its lowest level since 1949-50.
- Canada achieved the best improvement of total government fiscal balance from 1992 to 1998, of all G-7 nations.
- Over the same period, Canada experienced the biggest drop in program spending.

The Direct Benefits from Fiscal Order

Mr. Chairman, our strong economic performance reflects in part our strong financial performance. Thanks to the efforts of Canadians, this country is in the process of achieving a financial turnaround of historic proportions.
Paul Martin
The Economic and Fiscal Update, November 2, 1999

In the fall of 1994, financial markets plunged into turmoil with the devaluation of the Mexican peso. While the crisis was not serious globally, it had a dramatic impact on Canada. The more than 400 basis point increase in short-term interest rates in Canada not only put severe upward pressure on the deficit through higher debt servicing costs, it helped to stall the expansion of the economy.

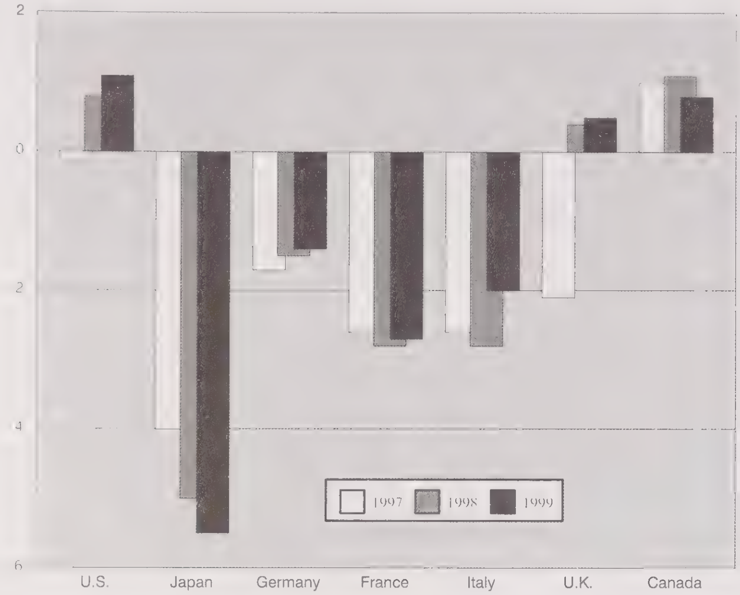
Four years later, the Asian crisis had a much greater effect on world financial markets. Yet Canada passed through this period relatively unshaken, with the notable exception of British Columbia where dependency on the Asian markets and falling demand for natural resources led to a provincial recession. For Canada as a whole, however, the slowdown in economic growth did not harm output growth by much and did not lead to a worsening of labour market conditions. Nor did it lead to a deterioration of the fiscal position of governments in general and the federal government in particular. Indeed, the most recent economic statistics indicate no adverse consequences at all.

Two distinct crises, separated by a short period of time, told such different stories. This reflects extremely well the benefits of a sound fiscal, monetary and economic environment and it bodes well for the future, demonstrating our ability to weather any economic or financial adversity that might come our way.

Over the past two years, the budget situation has improved considerably, from chronic deficits to balanced budgets and even surpluses.
Conseil du Patronat du Québec

Projections issued by the International Monetary Fund (IMF) and the Organization for Economic Co-operation and Development (OECD) foresee the Government of Canada achieving a third consecutive year with a balanced budget. Among G-7 countries, only the United States has also realized this milestone. As a percentage of GDP, however, the Canadian performance surpassed that of the United States for the past two fiscal years.

Chart 1: Central Government Balance (as % of GDP)



Pursuing the International Success Story

Our economic passage through the Asian crisis could have been much worse. The Mexican peso crisis of 1994 had a dramatic impact on the Canadian economy. Last year, Canadian authorities had much more room to manoeuvre in the face of economic and financial adversity. The biggest shock was the general decline in natural resources prices, explained largely by overproduction and falling demand. Canada's dependence on natural resources, though less important than in the past, was sufficient to result in downward pressure on the Canadian dollar. The financial market turmoil of August 1998 generated by the Russian crisis (as an extension of the Asian crisis) was another shock that we weathered well.

Mr. Chairman, a year ago when we met, there was great concern over the turmoil emanating from Asia, its contagious effect on the world economy and the impact this might have on our country.

Paul Martin,
***The Economic and Fiscal Update*, November 2, 1999**

The Canadian dollar was already suffering from downward pressures on foreign exchange markets because of declining commodity prices and because investors were seeking refuge in American dollar denominated assets when the Bank of Canada responded to the events of August 1998 by raising interest rates by 100 basis points. This was designed to restore some sense of stability to foreign exchange markets. This increase was, however, short lived and the Bank of Canada was able to reverse this 100 basis point increase within a few months.

The competitive position of Canadian businesses is very favourable while, with substantial progress in budget consolidation, monetary and fiscal policy can now work together to underpin economic expansion.

OECD Survey on Canada, 1998-99, Organization for Economic Co-Operation and Development

The Bank of Canada was able to maintain monetary stability by keeping inflation near the bottom of the 1% to 3% target range. (Recently, inflation has accelerated somewhat but core inflation is still in the lower half of the target range and poses little threat to the inflation targets.) Worries about inflation pressures caused the U.S. Federal Reserve to raise its interest rate by 25 basis points on 2 different occasions. The Bank of Canada did not match these increases, illustrating even more the favourable implications for Canadian monetary policy of a sound fiscal environment. In November, however, the Bank did raise Canadian rates by 25 basis points. The U.S. Federal Reserve Board also raised rates. The October inflation rate also fell to 2.3%, from the 2.6% recorded in September.

These recent events demonstrate the biggest benefit from achieving true fiscal discipline: the ability to maintain a consistent and prudent policy stance even in the face of international financial tumult. Canada now has a better capacity to determine its own policy destiny, even in the face of ever-increasing international interdependence.

As pointed out by the Governor of the Bank of Canada: " . . . the economic impact of the Asian crisis has been moderated by the strength of the U.S. economy and by the prompt response of major central banks . . . Although these positive developments are certainly important, it is also true that we have coped better with this crisis than in the past because our economy is now operating from a firmer base than it has for some time."[3]

But worries about the possible contagious effects of economic and financial crises persist. To help ensure that the global economy remains sound and stable, the international community has established the Group of Twenty (G-20) to promote dialogue, and study and review policy issues among industrialized countries, mostly members of the G-7 and emerging markets. This forum also includes representatives of the European Union, the World Bank and the International Monetary Fund. The aim is to promote financial stability in a world where some believe that financial crises are becoming not only more frequent but also more severe.[4] It is important to limit the extent and severity of these crises and to limit their spread to other economies via financial contagion. The Canadian Finance Minister, the Hon. Paul Martin, has been appointed as the G-20's first Chairperson.

The transition to a new century is an important opportunity to meet the challenges of the future, while addressing some pressing priorities from the past.

Federation of Canadian Municipalities

The world financial system could face other crises, due to the expanding volume and speed of financial transactions and the growing importance of emerging economies. These economies increase the potential of instability because they lack proper financial regulations and standards, and because of the huge indebtedness of some of these countries.

3 *Canada's economy as the year 2000 approaches*, Remarks by Gordon Thiessen, Governor of the Bank of Canada to the Chamber of Commerce, Regina, Saskatchewan, September 23, 1999.

4 Joseph Stiglitz, *Must Financial Crises Be This Frequent and This Painful*, McKay Lecture, Pittsburgh Penn., September 23, 1998.

Canada's recent experience and the lessons that it has learned from financial and fiscal stress have made it a model of sound global economic policy, supported by solid, well-regulated financial institutions. It could provide valuable lessons for other countries needing to address their own financial difficulties.

The federal government has made a spectacular success of rebalancing its budget, and it deserves to be congratulated

Chambre de commerce du Québec

Canada's financial markets are regulated to high prudential standards and are subject to strong market discipline, promoting a high degree of transparency and accountability. This is further promoted by the amount of high quality information that is publicly available.

Continuing Economic Growth

Annual growth of the Canadian economy exceeded 3% in each of 1997 and 1998. The International Monetary Fund has recently upgraded its economic outlook for the Canadian economy,[5] forecasting a 3.6% growth rate for this year, rather than the 2.6% it projected as recently as last May. This is consistent with the recent economic forecasts of all Canadian financial institutions. They have all revised upward their economic forecasts since last spring and expect growth for 1999 to exceed 3.5%. Canada's economy is expected to continue its strong performance for at least another two years, a good start to the new millennium. Overall, Canadian growth should closely parallel that of the United States and clearly surpass that of other G-7 nations in 1999 and 2000.

Canadian macroeconomic indicators are encouraging. Real GDP growth is reasonably strong, personal incomes are finally rising again . . . , and interest rates remain at relatively low (nominal) levels.

Jim Stanford, Canadian Auto Workers

World economic growth, forecast at 3% this year, is clearly being helped by the sharp rebound in the economic prospects of the Newly Industrialized Countries (NICs), where growth forecasts for 1999 have been revised from 0.5% to a very robust 5.2%.

Employment figures are also promising. Canada's economy produced 626,500 new jobs since the start of 1998. The unemployment rate fell from 9% in August 1997 to 6.9% in November 1999. Since last year, the net gain in private sector employment was close to 350,000.

5 *World Economic Outlook*, September 1999.

Continuing Low Inflation

As we head toward the year 2000, Canadians can proudly reflect on past accomplishments: today we are one of the world's most competitive economies and have been repeatedly ranked by the United Nations as the best country in the world to live. But the world is not standing still. A slip into complacency will jeopardize the ability of our children to enjoy a better quality of life.

Ontario Municipal Employees Retirement System

Despite the sharp drop in the external value of the Canadian dollar during this decade, the Bank of Canada has been able to keep inflation within its target range of 1% to 3%. Indeed, inflation has typically been at the lower end of this range, although it has risen above 2% recently.

The economy will soon be at, or near, its potential, and future increases in output will be limited by the growth of our capacity. Although inflation can occur at any time during the business cycle, it is most likely when the economy is at, or near, its potential. It is at this point that the Bank of Canada must be most vigilant.

To appreciate the credibility of Canadian monetary policy, as viewed by the behaviour of financial markets, it is instructive to note that the rate of interest on Canadian securities is lower than that for U.S. securities, regardless of the term to maturity. This indicates that investors have strong confidence in the ability of the Bank of Canada to maintain low inflation.

Consumer Confidence

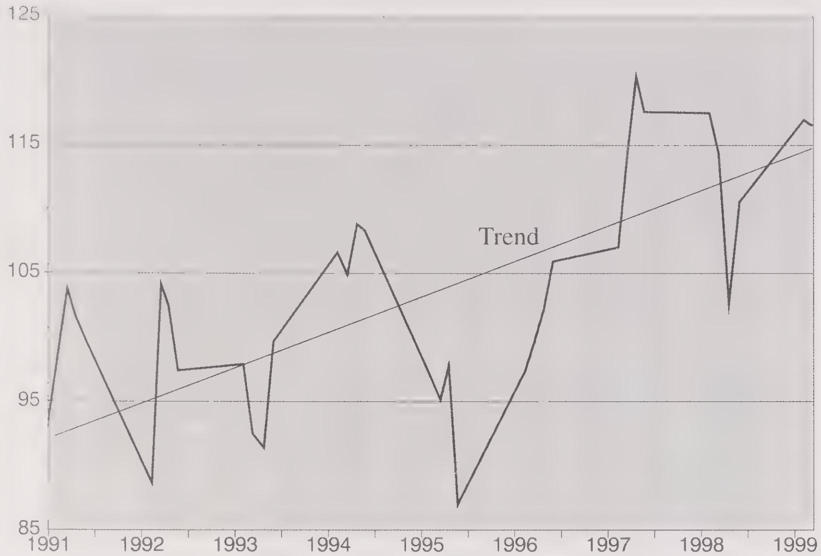
The consumer confidence index is an indicator of consumers' attitudes about economic conditions. This measure is still improving, indicating that Canadians continue to feel more confident in general about the economy and the future. After a long period of economic uncertainty, augmented by the effects of the tough fiscal restraint measures taken by governments, the level of confidence is today at levels not seen since the best years of the 1980s. This is consistent with the healthy economy, measured by such indicators as the growth rate, employment growth, low inflation and low interest rates.

. . . inflation targets have proved their worth over the last two or three years by signalling the need for relatively relaxed monetary policy at a time when many were calling for monetary stringency to defend the exchange rate . . .

David Laidler

While exports continue to account for a large part of economic growth, low interest rates and rising employment are encouraging Canadian families to increase spending. For example, consumer expenditures were up by more than 3% for the first six months of 1999. Another measure of consumer confidence, residential investment, is up sharply in the first half of 1999, at annual rates of more than 16%. Other measures such as retail sales show a sharp increase this year. Furthermore, with the exception of British Columbia, enhanced consumer confidence marks all Canadian regions.

Chart 2: Index of Consumers Attitudes: 1st Quarter of 1991 to 2nd Quarter of 1999



One concern, however, rests with the level of personal savings by individual Canadians. This rate is at its lowest level since Statistics Canada started tracking this variable in 1961. The rate was even negative for some months this year, indicating that Canadians were spending more than they were receiving as income. With job prospects at their best since the beginning of this decade, Canadians are increasing their consumption at rates faster than the increase in disposable income. This tendency is also being encouraged by the lower cost of borrowing. In part, this reflects the stage of the business cycle and strong consumer confidence. But it is also worrisome as it makes households more vulnerable to economic misfortunes. At the same time that the household savings rate has declined, household debt continued to grow. It now stands at close to 100% of GDP, whereas it was less than 80% of GDP in 1989.

I want to point out to the Committee . . . that there is no rule in scientific business cycle analysis that sets a maximum length for an economic expansion.

Pierre Fortin

On the other hand, total savings of the economy, the primary source of investment capital, are in much better shape, reflecting the sharp turnaround of government finances. Unlike in the past, the government sector is no longer a large drain on the savings of Canadians.

Retail Council members are optimistic about 2000, anticipating another year of steady growth in sales, in the range of four percent.

Retail Council of Canada

Chart 3A: Household Savings and Debt as a % of GDP

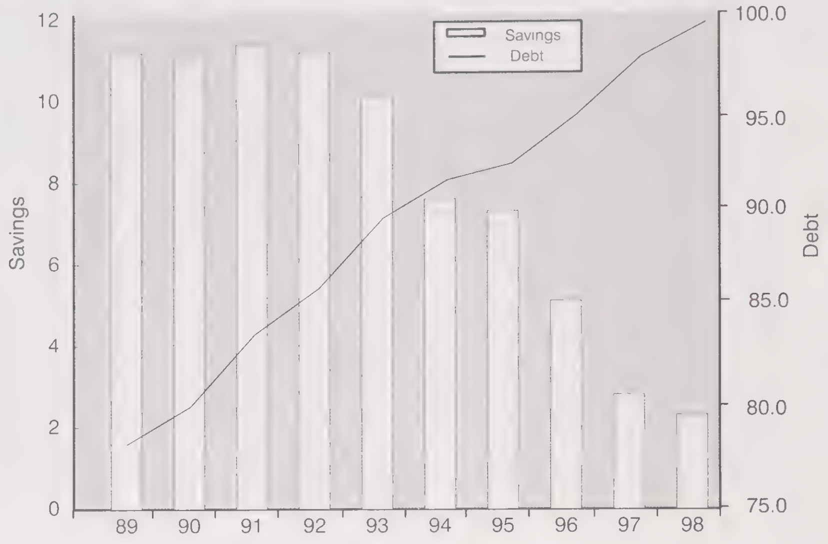
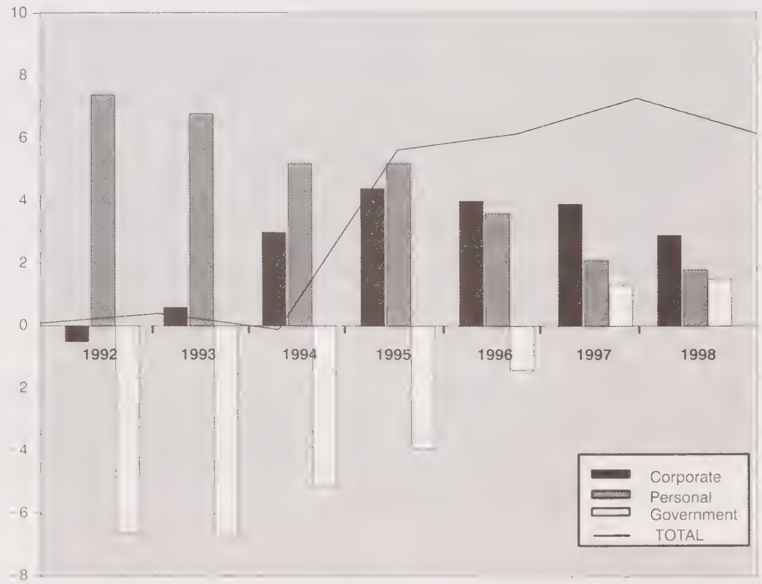


Chart 3B: Total Savings as a % of GDP

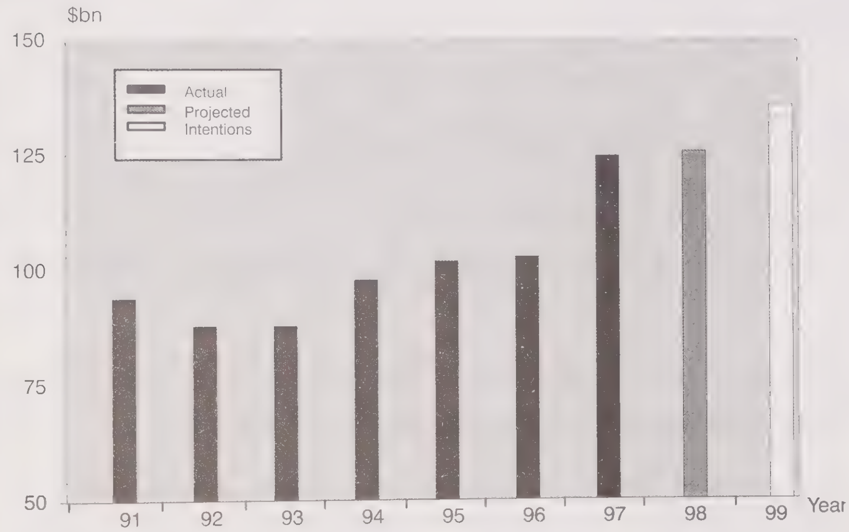


Business Confidence

Business confidence is also improving and is reflected in greater private investment in plant, equipment, and machinery. In the second quarter of 1999, for example, investment soared by 25.3%, as firms purchased significantly more computers, in part to improve their Y2K readiness. This growing involvement of Canadian firms in computer-related capital spending has enabled them to better face international competition. In addition, it makes them more able to adapt to an environment where new, daunting challenges are created by the fast expansion of electronic commerce.

Business investment intentions have been revised upward in Canada and are positive in all Canadian regions.

Chart 4: Plant and Equipment Spending, 1991-1999



Debt

The strong economic picture described above is associated with the general improvement in the fiscal performance of the federal government, reflected by the ratio of net public debt to GDP. For the second year in a row, net public debt has declined in nominal terms, contributing to a sharp decrease in this ratio, from 71.2% as of 31 March 1996 to 64.4% as of 31 March 1999. The most recent forecasts provided by the Department of Finance indicate that balanced budgets over the next five years would bring the federal net debt down to 49% of GDP.

Any fiscal plan for the next few years needs to give high priority to further debt reduction.

David Laidler

The cost of servicing debt impairs Canada's economic performance. Reduction of the national debt is very important if we, as a country, wish to maintain control over our fiscal position in the global economy.

St. John's Board of Trade

The costs of the country's debt burden are higher real long-term interest rates, reduced fiscal flexibility and use of resources to service the debt that could be better allocated elsewhere.

Tim O'Neill

Canada's problems in this regard [taxation] look particularly bad when comparisons are made with the United States.

David Laidler

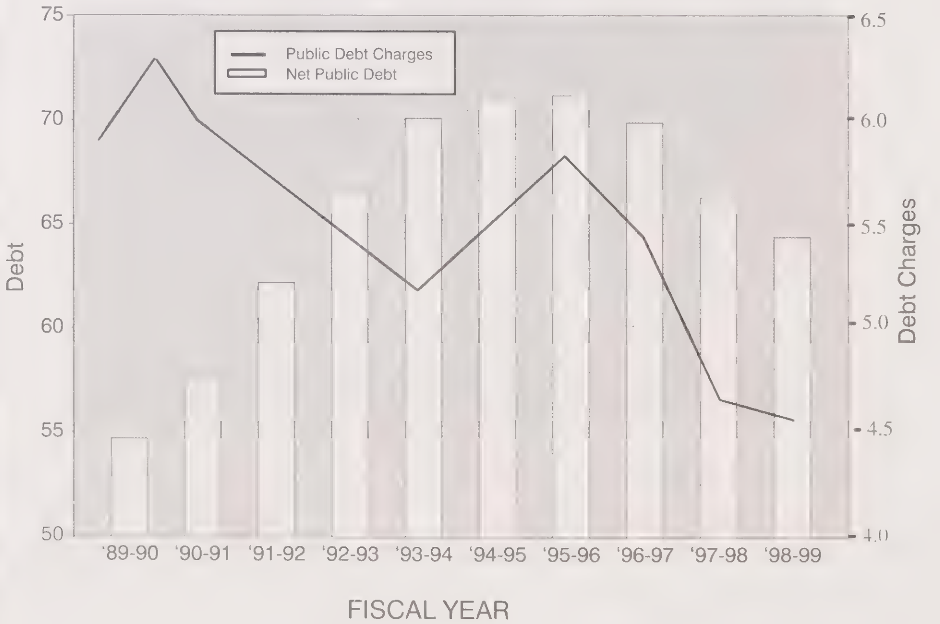
Declining debt, combined with increasing GDP, lightens the burden of debt charges, allowing the government to focus its fiscal policy more on the economic and social priorities of the country. Combined with low interest rates, these interest charges on the Government of Canada's debt have fallen to 4.6% of the GDP in 1999, compared to more than 6% at the beginning of this decade. With nominal GDP in excess of $900 billion, a difference of 1.4% is truly significant.

The *Economic and Fiscal Update* projects a further decline in debt servicing costs to 3.4% of GDP by 2004-05, even if the Contingency Reserve is not available to reduce the net debt. Should the reserve be put to debt reduction as in the past, every $1 billion reduction in debt would lead to a $70 million decrease in interest costs.

Another way to judge these trends is to look at the proportion of government revenues required to service the debt. At 26.6 cents per dollar of revenues in 1998-99, this ratio is expected to fall to 20 cents per dollar of revenue by 2004-05. Not too long ago, the federal government was devoting one-third of its revenues to debt service charges.

At 60.8%, on a National Accounts basis, Canada's net debt-to-GDP ratio remains the second highest among the G-7 countries, just after Italy and well above the G-7 average, of 45.8% for 1999. This highlights the persistence of the burden associated with past deficits. As a result, interest payments continue to take an excessive share of national output and, as is noted later in the Report, this debt servicing burden goes a long way to explaining the relatively higher tax burden in Canada, compared to the United States.

Chart 5: Net Public Debt and Charges (as a % of GDP)



The Provincial Situation

Provincial net debt and debt charges have also improved greatly. On a Public Accounts basis, provincial and territorial net-debt-to-GDP is about 28.3% in 1998 (less than one-half that of the federal government) with debt-charges stable at 2.5% of GDP for 1999, forecast to decrease slowly in 2000. Most of the provinces will balance their books this year, with the exception of three. Ontario had chosen to focus on significant tax cuts before the elimination of its deficit. The province expects to achieve a budgetary balance in the fiscal year 2000-01. And, as mentioned earlier in this report, British Columbia has experienced economic difficulties and this adversely affected its fiscal position. Nova Scotia has also reverted to deficit, estimated at $384 million in 1998-99 and $497 million in 1999-2000. It has also restated the books for the previous two years, again showing deficits. The government has committed to a balanced budget in 2002-03.

Please bear in mind . . . that (the BC economy), unlike most of the rest of the nation, is in recession . . . There is no blame attached in this statement. We are not looking backwards and saying this government or that government, or this business or that business should have done x. We are looking forward and seeking solutions.

British Columbia Chamber of Commerce

Following the lead of the federal government, prudent economic assumptions are used in several provinces and appear to be producing beneficial results. Quebec, for example, has surpassed its budgetary targets for the third year in a row. Ontario has done likewise.

In addition, many provinces had decided to introduce significant tax cuts in recent years, or are planning to do so.

Pressures from the United States

Globalization and free-trade agreements have created more opportunities for Canadians, but at the same time, new challenges. The border between Canada and the United States, at least for economic transactions, is becoming less of a barrier to Canadian firms and individuals.

Today, the effective tax burden on large firms in Canada is higher than in other major countries; this is particularly true for large firms in the service sector. Unless action is taken, there is a risk that Canada's outmoded corporate tax structure — particularly for large non-manufacturing firms — will lead to a continuing outflow of both investment dollars and head offices from Canada.

Business Council of British Columbia

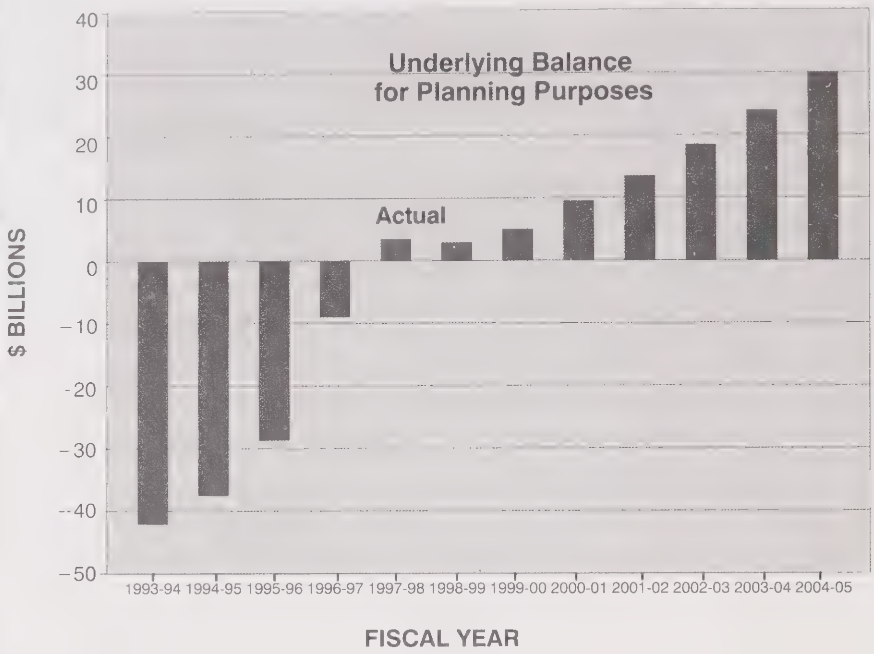
As reported in a recent issue of the Royal Bank's *Current Analysis,* "... Canada faces a daunting challenge in competing with American states as a location for both domestic and foreign investment."[6] If mobility is enhanced, taxes become a more important variable in this decision. This could be true for an American firm considering investment in Canada, but it is also true of a Canadian firm deciding where to invest.

Comparative figures show a continued increase in the spread between Canadian and American taxes during the past two decades. For 1996, tax revenues accounted for 28.5% of American GDP, while they took 36.8% of Canadian GDP.[7]

6 John McCallum, August 17, 1999, p.5.

7 Toronto Dominion Bank, *TD Report on Canadian Government Finances*, August 17, 1999, based on data provided by the OECD.

Chart 6: Government of Canada Budgetary Surplus



Globalization has tremendous potential to generate employment, income and economic growth, to develop human resources, transfer technology and increase productivity. It has the potential to raise standards of living and greatly improve the quality of life for people in Canada and around the world.

Canadian Council for International Cooperation

Chart 6 shows the changing fiscal position of the Government of Canada. From a $42 billion deficit in 1993-94, the federal government is now contemplating a $30 billion surplus in 2004-05, a $70 billion turnaround in just over a decade. Is this optimism justified?

All economic signs point to continued economic improvement in the short term. For example:

- Economic growth remains strong and in 1999 was driven by domestic demand.
- Commodity prices have rebounded sharply in 1999.
- Employment and hours worked are up by about 8% since the start of 1996.
- The unemployment rate is well below its pre-recessionary lows.

I think those projections are quite reasonable, including the setting-aside of an additional economic reserve.

Pierre Fortin

While the fiscal turnaround of the federal government was the direct result of actions taken by the government, and its future fiscal position will be the result of similar actions, for example the continued reliance upon Program Review and a commitment to reduce the debt, the economic condition of the nation also affects that position. In this regard, the forecast seems reasonable.

The Budget-Making Process

A significant part of the federal government's fiscal success stems from the budgeting innovations that it undertook a few years ago. The recently issued *Annual Financial Report* of the Government of Canada[8] contains a section entitled "The Scoreboard" that compares outcomes and forecasts of the two previous budgets. The government targeted a balanced budget for the last fiscal year in the 1998 and 1999 budgets. Instead, it realized a surplus because of better economic conditions and lower interest rates than forecast. The fiscal target for each fiscal year, under the Debt Repayment Plan has been base on the following elements:

- Prudent economic planning assumptions — the average of private sector economic forecasts available at that time adjusted to include an additional element of prudence; and
- The inclusion of an annual Contingency Reserve to cover risks arising from unpredictable events and unavoidable inaccuracies in the economic and fiscal models used to translate the economic assumptions into detailed budget forecasts.[9]

The Contingency Reserve is used as a buffer against adverse events. It is fixed at $3 billion. This amount is not to be used to finance program spending. If not required at the end of the fiscal year, this amount goes automatically to debt reduction.

A Catalogue of Policy Issues

With these economic conditions in mind the Committee has organized its pre-budget themes into five categories.

Our first concern is with the whole process of budget making and the parameters that are used. While the Committee recognizes that the existing budget process has served us well and has enabled the government to meet its deficit targets, a new approach might be needed in a world of budgetary surpluses and in a budget process designed to promote economic growth.

Now that the federal government has been able to meet or surpass its various targets in several consecutive budgets, now is the time to "raise the bar" . . .

Financial Executives Institute Canada

There are several elements to such a process. One is the time horizon, namely whether the government should stick to two-year rolling targets or whether it should consider a longer-term planning horizon, such as five years.

The other element is the nature of budgetary prudence. At present, the government uses two different approaches, namely a Contingency Reserve expressed in dollars and a prudence factor applied to economic assumptions

8 Department of Finance, September 23, 1999.

9 Ibid., p. 20.

> *Although the credit union system generally espouses caution in regard to tax reduction, our membership does believe there are important areas of tax reform that need to be immediately addressed.*
>
> **Credit Union Central of Canada**

> *Having reduced the debt, and freed up money currently being spent on interest payments, we can deliver sustainable reductions in personal taxes that will make a meaningful impact on the national economy.*
>
> **Metropolitan Halifax Chamber of Commerce**

expressed in basis points. Most Canadians are not professional economists and find it difficult to understand the amount of prudence contained in budgets. For the sake of greater transparency, is a new method of injecting economic prudence into the budget necessary?

The second issue of concern to the Committee is tax reform and tax relief. Whatever priority this issue may have, how the government goes about offering tax reform and tax relief can have a substantial impact on the economy. If the government is going to pursue a policy of productivity enhancement and increased economic growth, what role should be played by tax cuts, and how and where should those tax cuts be directed?

Tax cuts are important as stimulants to economic growth. They also have a direct impact on the disposable income of Canadian families, especially those with children. This consideration is also important in designing a tax reform/tax relief package.

Although the Committee is concerned very much with enhancing economic growth, that does not mean that we are unsympathetic to the importance played by social infrastructure in the standard of living of Canadians. Indeed, social infrastructure is an important component of a growth agenda. As well, social infrastructure has a direct impact on the well-being of Canadians. We will consider those areas in which social policy can contribute to the health of Canadian society and its economy.

With rapid technological change, and an increasingly interdependent world, no country such as Canada can stand still and maintain a strong and vibrant economy. The new economy is not science-fiction, instead, it is a fact of life. It is this new economy that has contributed to high levels of America growth and low levels of unemployment and inflation.

> *Many Canadians see a defining feature of their country as being "kinder and gentler" than the United States: a universal health care system, less extreme inequalities, and support for disadvantaged regions and individuals, such as the homeless and Aboriginals.*
>
> **Royal Bank of Canada, *Current Analysis***

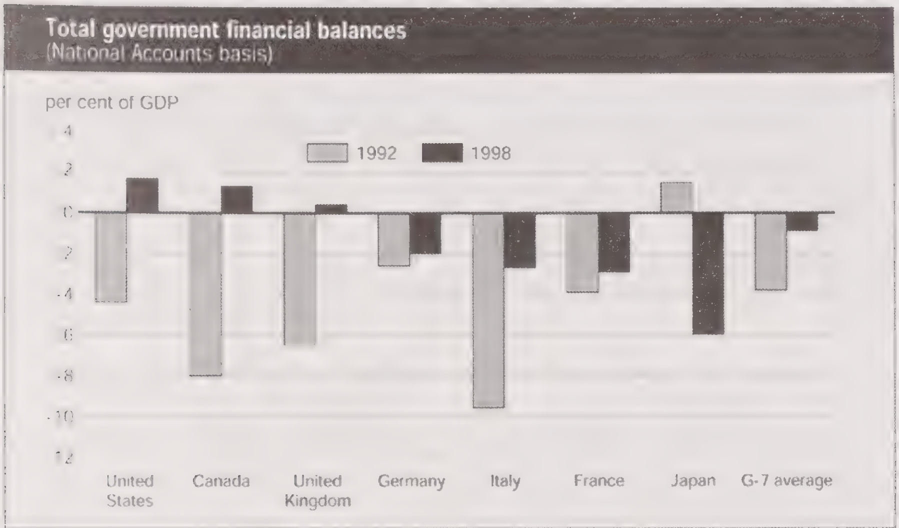
The policies that were appropriate for the old economy are unlikely to b appropriate for the new economy. They might even be counterproductive. we are to continue enhancing the standard of living of Canadians, it important and indeed essential that we be able to exploit the challenges an opportunities of this new economy.

Finally, the Committee will address the issue of productivity. It is a them that we have focused on in the past and it provides the unifying theme for th issues listed above. Productivity is the element that will define our standard living in the future. It will determine the extent to which we may enjoy th benefits of all the features of Canadian society that we value. To what exte may we have a dynamic and prosperous economy? How secure a social safe net can we afford? How will we ensure an adequate health care system in th face of an ageing population?

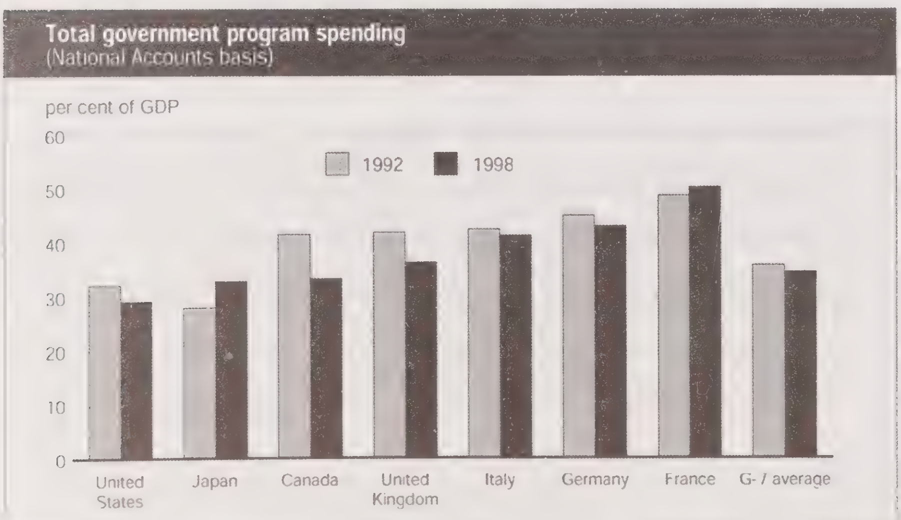
The answers to these five questions will constitute our message to Parliament, the government and the Minister of Finance. We anticipate and hope that they will help to produce a budget of great benefit to all Canadians.

The Canadian destiny was, and still is, to be a kinder, gentler society.

***The Economist*, July 24, 1999, Survey on Canada**



Source: *OECD Economic Outlook No. 65*, June 1999



Source: *OECD Economic Outlook No. 65*, June 1999

CHAPTER 1:
THE BUDGET-MAKING PROCESS

The federal budget represents the most important fiscal event in Canada. It not only presents Canadians with an expenditure and tax blueprint for the upcoming year but it presents us with the short-term outlook regarding the nation's economic prospects and the government's financial position.

The budget is the outcome of a long process, involving legislation, government officials, professional economists, business and labour. It has evolved over time in response to economic and financial circumstances and one of its current reforms has been the active participation of the Canadian public in the process.

Not only has the process changed in the sense that participation in the process has been opened up, it has changed in the manner in which the budget establishes its own set of constraints, namely the time frame over which it applies, the manner in which data are presented, the targets it sets for fiscal policy, etc. These reforms were meant to improve the budget-making process so that the government can deliver budgets that are better able to address the economic and financial realities of Canada.

I think the real challenge here, in terms of the budget process, is to balance the needs and expectations of Canadians with respect to public services and social programs and to ensure that those programs, which we establish and retain, are delivered in as cost effective manner as possible and contribute to the overall productivity of the Canadian economy.

Canadian Pulp and Paper Association

Lessons from the Former Budget-Making Process

There has been a long tradition of budget secrecy in Canada. The unveiling of the government's fiscal policy intentions takes place on budget day, often without any public inkling as to what the budget may contain. This was especially true with respect to tax matters. This secrecy also affected the budget-making process. While a variety of groups met on a one-to-one basis with the Minister of Finance prior to the budget to plead their case, this was all done behind closed doors. This stands in sharp contrast, for example, to the tradition in the United States where the budget is debated in public over a prolonged period of time.

The failed attempts of the Government of Canada to control budgetary deficits in the 1980s and early 1990s was, to some extent, due to the budget-making process. Budgets seemed incapable of providing credible forecasts. And the reliance upon five-year planning horizons enabled governments to present rosy scenarios for the future while they were failing to meet their short-term commitments. Deficit projections were not met even in periods of strong economic growth, the justification being that interest rates were higher than had been anticipated. Thus in good times as well as in bad, the debt grew at unsustainable rates.

The pre-budget consultation has been an important instrument in carrying forward the issues of health research into the budget-making process.

Medical Research Council of Canada

Put simply, budgetary forecasts never materialized causing the public to lose confidence in them, which ultimately hurt the credibility of government budgets.

Credibility and the Budget-Making Process

After many years of disappointment and a growing public debt, the government attempted to control expenditures and restore credibility by implementing the Expenditure Control Plan in the 1990 budget. This plan affected only 60% of program spending and could not prevent the $42 billion deficit in 1993-94.

In 1994, the government recognized that it had to act decisively as there was almost a "crisis atmosphere"[10] with respect to Canada's financial position. It decided to establish, and maintain, hard budget constraints via short-term deficit-to-GDP targets. The biggest test of this resoluteness came as a result of the Mexican peso crisis, an event that had a significant impact on Canadian financial markets, the Canadian dollar, and the economy. The government reacted to these events in the 1995 budget which set the stage for the complete turnaround of the government's fiscal position. A key element of this was the Program Review exercise that set the stage for spending cuts, based on the following six questions, or tests:

- Public Interest Test: Does the program area or activity continue to serve a public interest?
- Role of Government Test: Is there a legitimate and necessary role for government in this program area or activity?
- Federalism Test: Is the current role of the federal government appropriate, or is the program a candidate for realignment with the provinces?
- Partnership Test: What activities or programs should or could be transferred in whole or in part to the private or voluntary sector?
- Efficiency Test: If the program or activity continues, how could its efficiency be improved?
- Affordability Test: Is the resultant package of programs and activities affordable, given the government's overall fiscal objectives? If not, what programs or activities should be abandoned?[11]

This review offered an opportunity to gauge the pertinence of programs to the public interest and provided the basis for the budget cuts contained in that, and subsequent, budgets. The government responded with some deep spending cuts. Nevertheless, the public mood had clearly come to side with the government's actions.

In 1993, the federal government announced its desire to reduce the fiscal deficit to 3% of the GDP, as an interim target. Many analysts at that time

[10] *Budgeting in Canada*, 20th Annual Meeting of Senior Budget Officials, Public Management Committee, OECD, Paris, 1999, p. 10.

[11] Privy Council Office, Program Review and Getting Government Right.

considered this decrease to be too slow or too easily achievable. After the economic events of 1994, some considered it unattainable, especially in light of past experience. Nevertheless, the government remained committed to its targets, even in the face of this economic turmoil.

It was widely acknowledged that the 3% deficit to GDP target was only an interim one and that the ultimate goal of the government was to balance the budget. However, by sticking to two-year rolling targets, the government was able to provide realistic and achievable goals. As important, it provided clear benchmarks against which the government's performance could be judged, allowing Canadians to know if it was going off track. In the words of the OECD, by this approach, " . . . the government had — by design — created heavy potential costs for itself if it did not succeed."[12] This enhanced the commitment to the targets and enhanced the likelihood of success.

Forecasting economic conditions is a major component of the budget process, since economic conditions govern how much revenue and expenditure can be expected from a given set of rules.

Canadian Centre for Policy Alternatives — BC Office

Limiting its forecasts to the short term also increased the probability of success. The odds of success were also improved by employing, what some pundits referred to as, "a liberal dose of conservative assumptions." This was achieved by employing prudent economic assumptions, i.e. being more pessimistic than the projections of private sector economists. By assuming that interest rates would be as much as 100 basis points higher than forecast by private sector economists, the government directly inflated the projected budgetary deficit through higher debt servicing costs. In addition, this procedure lowered forecast growth rates, implying higher unemployment, higher government spending and lower tax revenues.

In addition to these prudent assumptions, the government employed a Contingency Reserve designed to take into account the possibility of unexpected events as well as the errors that often arise from economic and financial modelling. This Contingency Reserve, now set at $3 billion, could not be used to fund new government initiatives such as tax cuts or spending programs. If not needed, it went towards reducing the deficit, and now the net debt.

At $3 billion, everyone knows the value of the Contingency Reserve and the impact it has in understating projected surpluses. The use of prudent economic assumptions does the same thing but it is not obvious just what the dollar impact is on the budget. While these prudent economic assumptions played an important part in restoring credibility to the budget, some critics now believe that they in fact make the budget process less transparent.

Another major difference between a Contingency Reserve and prudent economic assumptions is the fact that if the former is not needed it goes automatically to debt reduction while no such restriction applies to the latter concept.

12 OECD (1999), p. 9.

Transparency and the Budget-Making Process

The present consultative process is commendable, since it permits individuals and groups to have direct input into the development of the Budget, and should be continued.

The National Council of Women of Canada

To enhance transparency, the government decided to publicize its broad fiscal intentions prior to the presentation of the annual budget, and to allow Canadians to participate in the preparation of the budget through consultations and public hearings. This stood in sharp contrast with the previous approach. This public involvement took the form of Pre-Budget Consultations (PBC). PBC are now well known by Canadians and they have demonstrated their interest by their active participation. The House of Commons Standing Committee on Finance travels across Canada to consult individuals, business and labour and other groups to ensure that it is exposed to the widest range of public opinion in Canada. This increased transparency has even been internationally recognized and applauded. The OECD has recently said that: "The Pre-Budget Consultations have been an important element in opening up the budget process and creating an atmosphere where the public feels it can have an input."[13]

Le Mouvement Desjardins supports a federal budget process that is based on consultation, practicality and prudence.

Confédération des caisses populaires et d'économie Desjardins du Québec

An important aspect of this process is the *Economic and Fiscal Update* presented by the Minister of Finance every autumn. This document contains the most up-to-date economic and fiscal data. In the past, it was at this time that the Minister established the deficit target for the next year.

Canadians participated through the Pre-Budget Consultations and have seen the concrete results of that participation through the incorporation of many of the Committee's recommendations in budget initiatives.

In order to stop the growth of government debt, the government had to change the way in which it prepared budgets. These changes were readily accepted by the Canadian public, as were the budgetary measures. The key elements to success can be summarized by the elements of the Debt Repayment Plan set out in the 1998 budget:

We strongly endorse the current consultative approach, The challenge for the Committee is to ensure the process is meaningful, while taking into consideration many interests and views.

Railway Association of Canada

- Two-year fiscal plans based on prudent economic planning assumptions;
- The inclusion in the fiscal plan of an annual Contingency Reserve;
- The use of the Contingency Reserve, when it is not needed, to pay down the public debt.

---

13 Ibid., p. 18.

New Challenges Demand New Approaches

The fact that the government employed a budget-making process suitable to the task of achieving a balanced budget does not mean that such a process is suitable in a world of rapidly growing annual surpluses. Continually declining deficits were the anchor of fiscal policy in the recent past. What is to be the anchor of fiscal policy in the future?

The short-term focus of past budgets was designed primarily to restore credibility to the federal budget. This was important because of the history of fiscal failures, but also because Canada was then in the midst of a fiscal crisis, with high spending and high deficits. The government had to convince Canadians that it could restore sound fiscal policy and deliver that which it promised. This has now been achieved. But having done so, it is now time to take advantage of what has been accomplished and establish a budget-making process for the future.

I think with Mr. Martin's presentation (. . .) this Committee has an historic opportunity to discuss the whole approach we take to how we manage the surplus in the future, which will have an important implication on both the programs this government has, the overall expenditures of government and more importantly the economic development of the country.

Canadian Chemical Producers Association

The Auditor General in a recent report recommended that the focus of fiscal policy not be annual budgetary balances but rather the net debt to GDP ratio. Indeed, concentrating on the debt to GDP ratio causes us to take a completely different perspective on the fiscal circumstances of the federal government. While our annual budget balance is the best, or close to the best, of the G-7 countries, our accumulated debt is close to the worst, being surpassed only by that of Italy. This is the record that we need to address because it takes into account the legacy of past budgets. It looks far back into our fiscal history and provides a summation of the consequences of that fiscal history.

The federal government has been reluctant to target the debt to GDP ratio now that annual deficits have been eliminated. In the absence of such targets, we have been left merely with projections of balanced budgets. Were these targets? If so, what was the purpose of the targets and how had they been chosen? Will this approach continue into the future?

Moreover, the government is committed to not running a budgetary deficit. This commitment to avoid deficits is an important element in maintaining fiscal credibility. By itself, however, it is not a guarantor of sound fiscal policy.

Reduction of the national debt is very important if we, as a country, wish to maintain control over our fiscal position in the global economy.

St. John's Board of Trade

The Committee's Approach

We heard repeatedly that the government now has an opportunity to remake its budgetary process, consistent with the challenges and opportunities of the new fiscal and economic era. In our view, the budget-making process should be more forward-looking and be a tool for promoting a growth and productivity agenda.

Short-term planning can not be viewed as the late evening news or tomorrow's headlines. Long term planning must look further than the next election.

Canadian Taxpayers' Federation

As we noted in our Report, *Productivity With A Purpose: Improving the Standard of Living of Canadians*, "productivity growth that promotes a higher standard of living does not arrive overnight. The results will be seen only after some time. Thus it will require that the government look far into the future, and resist the temptation to seek quick fixes." We also stressed in that Report that productivity is really the result of many types of investments. All of this indicates that we should fix our gaze beyond today or tomorrow and look instead further into the future. A short-term fiscal horizon is not consistent with this view and it is not adequate for the task at hand. **Thus the Committee recommends that the government present longer-term fiscal projections. We recommend that the planning horizon be five years.**

In the *Economic and Fiscal Update* tabled on November 2, 1999, the Minister of Finance presented a five-year estimate of the planning surpluses. That document argued that this would enhance the policy debate concerning future fiscal policy. However, the Minister made it clear that the government will continue to take decisions only within the context of rolling two-year horizons. It considered longer-term commitments to be subject to too much risk, preferring instead to leave room for greater flexibility in the event of changing economic circumstances.

The Committee is broadly in agreement. The five-year estimate of surpluses for planning purposes presents a framework within which the budgetary debate can take place. It also provides an opportunity to make the government's longer-term intentions known. Fiscal measures would, however, only be enacted if the economic and fiscal position permits.

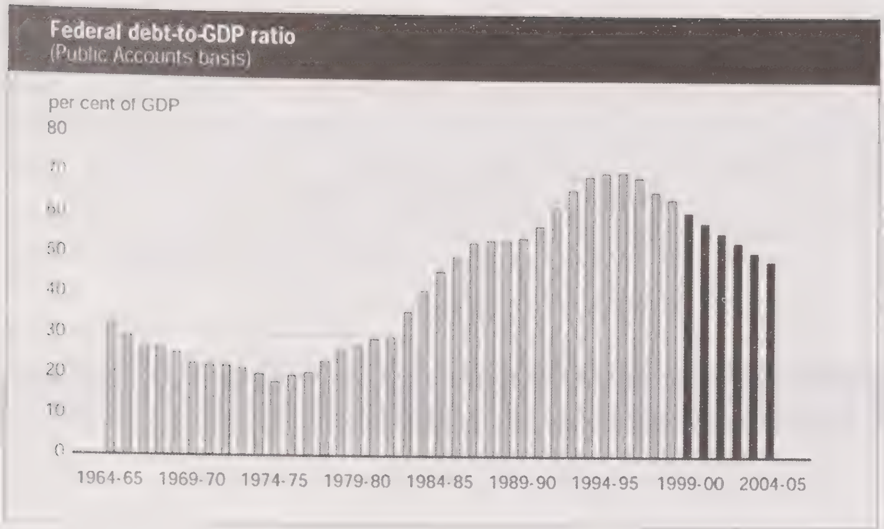
Nevertheless, it is important to send a clear and credible fiscal signal about the intentions of the government. Our five-year tax and EI premium reduction plan, for example, does just that.

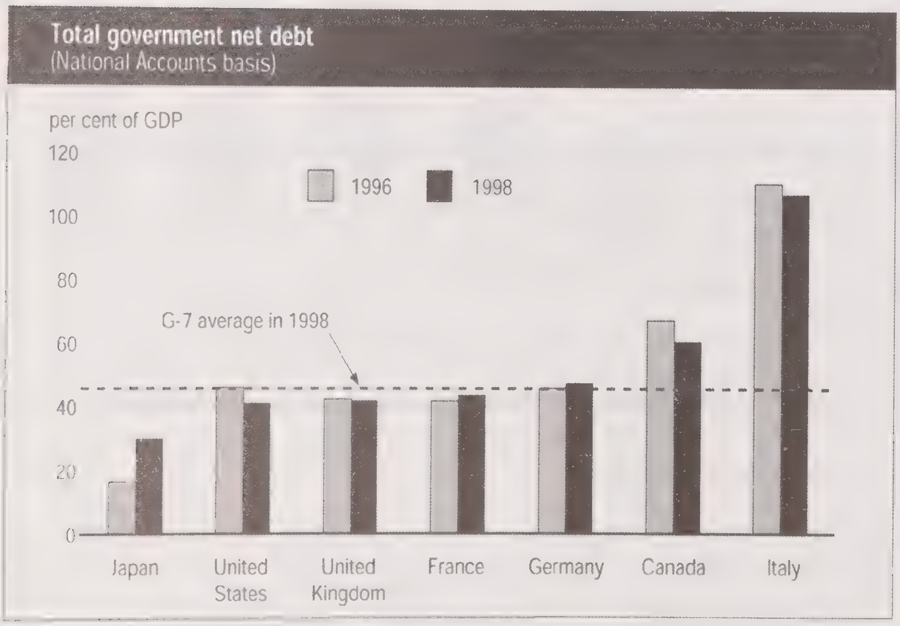
The Committee believes that federal fiscal policy needs to be mindful of the debt to GDP ratio. **Consequently we recommend that the government establish a net debt to GDP target for the end of its planning horizon. For the next budget we suggest that the target be no more than 50%.**

A better approach would explicitly acknowledge that the future is uncertain . . .

William B.P. Robson

This target is both reasonable and beneficial for the government and economy. It would represent a reduction in debt to GDP of approximately 30% from the peak, recorded in 1995-96. Beyond this, what should be the debt target? One option, for example, comes from the Bank of Montreal, which suggests the average debt to GDP ratio of AAA-rated G-7 countries.



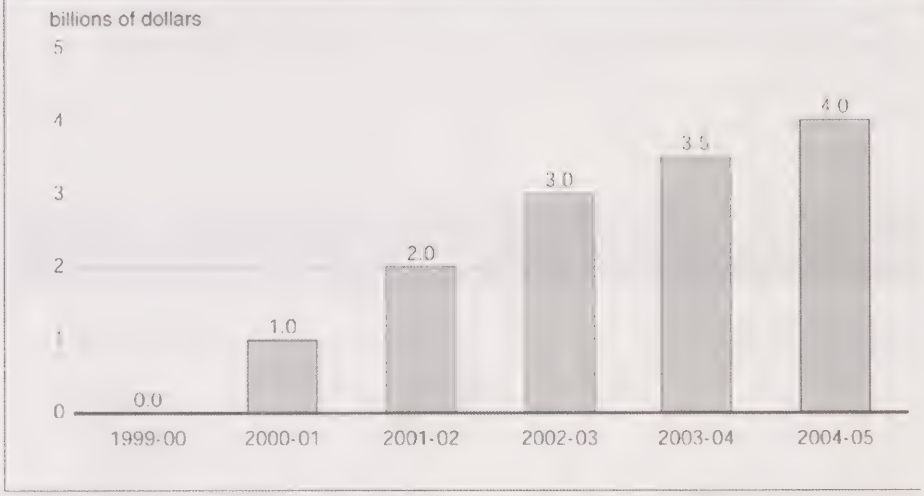


Source: *OECD Economic Outlook No. 65*, June 1999

The method of prudence used by the government should be changed. Instead of prudent economic assumptions, based on economic variable, combined with the Contingency Reserve, presented in dollar terms, the Committee believes that the government should present a dollar-denominated measure of economic and fiscal prudence. This was done in the recent *Economic and Fiscal Update*, with the amount of additional prudence growing to $4 billion after five years. **The Committee applauds this decision and recommends that some precise formula or range be established for the measure of economic prudence in the future.**

The private sector has demonstrated its ability to provide credible projections about the state of the economy. There is sufficient capacity to provide a wide range of projections, each of which can be judged for accuracy against the performance of other economic forecasters. **Thus we recommend that the Department of Finance continue to use the private sector consensus forecast for its own economic projections.** This goes a long way towards addressing the criticisms of those who believe the government hides the true extent of its budget balance so as to dictate the parameters within which fiscal policy is debated.

Extra degree of economic prudence



The best way to ensure Canadians will continue to be able to fund government social spending is to significantly reduce the debt over time.

Calgary Chamber of Commerce

The Contingency Reserve is a key tool in maintaining credibility and in achieving fiscal targets. **As a result, the Committee recommends that any unutilized portion of the Contingency Reserve should continue to go directly to debt reduction.**

The ultimate surplus for the fiscal year 1998-99 was $2.9 billion, $100 million less than the Contingency Reserve. This was not due to any unexpected economic downturn but rather because of a budgetary miscalculation on the part of the government at the time of the 1999 budget. While this amount is relatively small, this should not have a permanent effect on the public debt.

Thus the role of the Contingency Reserve should be enhanced. It should be more than just a financial safety net — it should be an integral component of debt reduction. Indeed, it should constitute a guaranteed measure of debt reduction. **Therefore, we recommend that any time the full amount of the Contingency Reserve is not available for debt reduction, the difference should be added to the Contingency Reserve of the following year.** This approach provides the government with a certain amount of flexibility in any given year but holds "its feet to the fire" whenever that flexibility is needed. As a result, the past deficiencies of longer-term planning horizons can be avoided

while at the same time providing Canadians with a longer-term blueprint of the government's intentions. This we believe is essential if Canadians are to make the kinds of investments that are necessary for a stronger and more prosperous economy.

Another issue to consider is the size of the reserve. The Committee is satisfied with the current magnitude of the reserve, given our recommendation that would guarantee a $3 billion average reduction in the net debt. Others, however, want a greater reserve. The Bank of Montreal stresses debt reduction and, to facilitate that, it recommends a Contingency Reserve equal to 0.75% of GDP. To put this recommendation in context, it would have meant a $7 billion Contingency Reserve for the current fiscal year. The Royal Bank presented a medium-term forecast that envisaged growing Contingency Reserves, although not to the same extent as in the Bank of Montreal submission.

The Committee recognizes the rationale for higher Contingency Reserves. The current reserve is about one-third of 1% of GDP. Given our recommendation to add to the reserve whenever the full amount is not used for debt reduction, we see no need to increase it substantially. Moreover, the annual measure of economic prudence now to be added to budgetary projections will reduce budgetary uncertainty.

The CD Howe Institute takes an approach to budget making that recognizes the uncertainty inherent in future projections and asks what kinds of initiatives the government might undertake that will allow it to achieve, with a high degree of certainty, certain fiscal benchmarks. It suggests three possible benchmarks: that the budget show a surplus at the end of the year at least equal to the $3 billion Contingency Reserve; that there be a surplus every year, no matter how small; that the net debt to GDP ratio fall every year. The last benchmark is the easiest to achieve as it would permit some small deficit every year.

That submission concludes that the finances of the federal government "... have improved to the point where significant tax relief is possible without endangering continued fiscal health." Indeed, it goes on to suggest that annual tax cuts of $2.5 billion in each of the next four years could still yield a 90% chance of consistently running surpluses of no less than $3 billion while annual tax cuts of $4 billion leave the government 90% likely to avoid deficits in any year. These are odds that the Canadian government and the Canadian people can live with. The short-term economic prospects are very good and over the longer term, the federal government proposes to increase its measure of economic prudence, further shielding the budgetary balance from unexpected events.

The Committee believes that Pre-Budget Consultations should continue. They have proven to be a vital element that has made Canadians a part of the budget-making process. They have contributed to better budgets because they have helped to give the government an improved sense of the public mood.

The 50/50 Split

Certainly we would support a wholesale, detailed re-examination of the 50/50 policy. We think the circumstances have changed considerably and as we see the growing disparity between Canada's ability to compete internationally in attracting capital and keeping high tech employees and the like . . .

Canadian Wireless Telecommunications Association

This government is committed to spending one-half of the fiscal surplus on strategic social and economic priorities, with the remaining half to be devoted to tax cuts and debt reduction. This commitment is for the life of this Parliament.

In a world of rapidly growing surpluses, is this an appropriate guide for government policy? It was conceived in an era of small surpluses and uncertainty about the state of the economy and the government's balance. But as we argue in this report, new times and new challenges require new approaches. The government should not unnecessarily place itself in such a "straightjacket." Indeed, as we note below, the Committee believes that program spending must always meet the tests of Program Review, and we believe even further that it should be consistent with a productivity agenda. A formula that directs a fixed percentage of budgetary surpluses, and indeed quite substantial surpluses in the future, cannot guarantee any such adherence to the tests of Program Review.

The issue; I think, . . . is that right now we are all handcuffed by a 50/50 policy. There's two issues. Change that 50/50 policy or then change how that surplus is determined.

Canadian Federation of Independent Business

The Minister of Finance said in his 1999 Economic and Fiscal Update that "a nation is not static. Economies are not static. People are not static. Anchored by a set of core values, our greatest strength is our capacity to respond in new ways to the new challenges before us." We were told that, a 50/50 ratio of social spending to debt and tax reduction is an entrenchment of a policy which fails to recognize the flexibility of our fiscal balance sheet. Therefore, government policy should be flexible and open to new opportunities to address the pressing needs of Canadians, namely how to enhance their well-being.

Many witnesses before the Committee raised the issue of the 50/50 rule of thumb. The vast majority of these submissions questioned whether a set formula might unnecessarily restrict the federal government's flexibility in the years ahead in addressing emerging priorities. While this concern was most frequently posited in the context of limiting the resources available for tax relief and debt reduction, the logic applies as well to spending.

. . . , I would tend to say maybe we've been caught up too much on the 50:50 split. So the more that we could say for example downplay that and as we say look at what are some of the economic targets that we should have in Canada in terms of having a sustainable type of economy.

Fishery Council of Canada

While the Committee recognizes that this is a legitimate issue for debate, we also heard virtually universal calls for a balanced approach to budgetary measures in the years ahead. Few groups or individuals counselled the Committee to focus exclusively on a single course of action.

While Canadians respect the government's commitment to a 50/50 split for this mandate, they feel that it should not constrain the government in its future planning. **The Committee recognizes the government's commitment to this formula over the course of this Parliament and recommends therefore that it be honoured. In the next Parliament, however, the Committee recommends that the government not now bind itself to any formula.**

Program Review/Productivity Covenant/Regulatory Audit

Program Review was launched in 1994 when the federal government faced a financial crisis, rapidly growing debt and debt service charges. It was implemented within the context of program reductions designed to meet the needs of the 1995 budget — to reduce spending on certain programs by 5% to 60% over the next three years.

This type of assessment is valuable at all times, and is particularly valuable when there exists the possibility of $95 billion in cumulative surpluses over the next five years. The government is currently under a great deal of pressure to initiate a variety of new programs, dealing with social concerns as well as physical infrastructure, health care, research and development and others. While the Committee does not automatically rule out such spending initiatives, the availability of vast resources for new programs is no inherent justification for such undertakings. These programs must meet the very strict standards set out above. In our view, they should also be in support of productivity growth. Not only that, programs should have to justify their existence on a regular basis — just because a program may have been justified at one point in time does not mean it is still relevant or useful.

So I would emphasize that the debate is not about threatening Canadians, and polarizing, the tax cut people against the program people. I think Canadians need to understand that both objectives must be accomplished within the original budget envelope.

Canadian Chamber of Commerce

It is important that such assessments be conducted not so much within a fiscal framework but within a productivity framework instead. A good example relates to the use of regulation to achieve certain government goals. Regulation is in many respects a very good substitute for government spending programs. It can accomplish many of the goals of spending programs, however, the major costs of regulation are borne by the private sector with only a very small proportion of total costs being borne explicitly by the government. The Productivity Covenant recommended by the Committee last year would judge new regulations in the same way that it would judge new spending programs.

There is, however, a vast set of regulations that are now in existence, many of which have never gone through any kind of regulatory analysis and many of which provide no real benefit today. Although a call for regulatory review surfaces on a regular basis every few years, it appears that no substantive and comprehensive review ever takes place. This situation is unacceptable, particularly as it applies to the SME sector where the burden of regulatory compliance is particularly onerous.

In all of the explicit tests of Program Review, there are an additional two implicit tests. The Committee would like to bring them out into the open. These are:

- Identification Test: Before attempting to devise solutions, has the government determined that a problem actually exists and does it understand the nature of the problem?
- Unintended Consequences Test: Is the solution the right one? Is it counterproductive?

The Committee recommends, therefore, that the federal government initiate a regulatory audit of all regulations to ensure relevancy and benefit of regulations in our current context. This audit should include a clear process and schedule for the elimination of undesirable regulations.

The Committee further recommends that any new spending initiative be subject to the rigorous and detailed tests of the principles of Program Review.

CHAPTER 2:
TAX RELIEF AND TAX REFORM

Now that the economic fallout from the East Asian crisis has diminished, the prospects for the Canadian economy are once again quite good. Although Canada and the United States are very well along the way in their respective economic recoveries, there is little evidence that any serious recession looms in the near future. The stance of monetary and fiscal policy in both countries is consistent with non-inflationary growth, so there is little likelihood of a policy-induced recession. Any such recession would originate from the real side of the economy, possibly originating in other economies.

On an optimistic note, the Canadian economy weathered the East Asian turmoil extremely well, more so than it did the Mexican peso crisis. The latter was much less important on a global scale than the East Asian crisis yet its impact on Canada was far greater. This suggests that the improved structure of the Canadian economy (our economy is far more open than it was just a decade ago, our reliance on commodity-based exports continues to decline and knowledge-based economic activities are becoming an increasingly important part of the Canadian economy) and the improved balance sheets of our governments are making for a more sound and stable economy.

> *The federal government must be prepared to assist in the continuation of the recovery by reinvesting growing budget surpluses in the economy.*
>
> **Canadian Labour Congress**

Thus we should be able to weather any short-term disturbances well. And even though there is currently some acceleration of price increases beyond the Bank of Canada's target midpoint, this effect is more than likely to be short lived, having little impact on the monetary stance of the Bank of Canada.

With this in mind, reasonable forecasts for economic growth, based on the consensus forecasts of private sector economists are suggesting that the federal government would be able to accumulate growing and quite substantial budgetary surpluses over the next few years. *The Economic and Fiscal Update* presented by the Minister of Finance is based on that consensus. The details are as follows:

- Real economic growth averaging 2.9% per year over the medium term.
- Annual inflation of 1.5% per year.
- Nominal GDP growth of 4.4% per year.
- Federal revenues growing by 4.4% per year.
- Stable debt servicing charges.
- Budgetary surpluses growing from about $9.5 billion in 2000-01 to $18.5 billion in 2002-03 and $30 billion in 2004-05.

A non-inflationary monetary environment, coupled with a declining nominal debt, bodes well for stable debt servicing costs. This surplus scenario assumes no major new spending initiatives. Funds needed to meet the commitments of current programs are maintained, but new programs would have to come from a restructuring of the government spending envelope. As recommended by the Financial Executives Institute Canada (FEIC):

> Until substantial progress is made in paying down the debt, FEIC believes that the federal government should hold the line on spending in real terms, adjusting only for inflation and population growth. This will allow for a slight annual increase but makes room for debt and tax reduction that will ultimately make Canada's economy stronger and more competitive, and personal incomes higher.

Constant real per capita program spending was a common standard recommended for the expenditure side of the federal budget. The submission of the Bank of Montreal made the case for this standard when it argued that:

> Apart from ensuring that the work force is healthy and well educated, and that the physical infrastructure is in good shape, all provincial responsibilities, there does not seem to be a compelling economic case for significantly more spending.
>
> The low rate of increase in gross incomes during the 1990s was not accompanied by an increase in after-tax income disparities, suggesting that the personal tax system is working for equity considerations and that spending increases for this purpose are not necessary.

Finally, data provided by the TD Bank show that real per capita program spending by all levels of government, while having declined from its peak in the early 1990s, is still at the same level it was at the start of this decade, is about 25% higher than it was in 1980 and is about twice what it was in 1970.[14]

The federal government's ability to reduce taxes to bolster Canada's international competitiveness, however, will be limited if it is unable to control spending.

Canadian Pulp and Paper Association

Although the Committee can see a modest increase in real program spending per capita where justified, and only when justified, we believe that the rule of "inflation plus population growth" is a good benchmark for program spending. All new and existing expenditures must meet the tests of program review. Moreover, they must be consistent with a productivity agenda, what we have referred to earlier as a Productivity Covenant. **Thus the Committee recommends that the government strive to keep the level of real per capita expenditures close to current levels. The Committee makes this recommendation with the full knowledge that maintaining government expenditures at current real per capita levels presents challenge given the rising cost of government programs.**

---

14 "Looking Ahead to Canada's Federal Budget 2000," *TD Economics*, October 28, 1999.

The view of the Committee is consistent with the position put forward by the Calgary Chamber of Commerce in the conclusion to its submission. It noted that:

> The best way to ensure Canadians will continue to be able to fund government social spending is to significantly reduce the debt over time. That requires actual debt repayment and tax cuts to spur continued economic growth. Just as the deficit spiral created compounding debt in Canada, the same process can help pay it off . . . Tax relief should be used to accelerate the process. Above all, new spending should not be considered until the debt spiral is working solidly in reverse.

The six tests of Program Review

- *Public Interest Test: Does the program area or activity continue to serve a public interest?*
- *Role of Government Test: Is there a legitimate and necessary role for government in this program area or activity?*
- *Federalism Test: Is the current role of the federal government appropriate, or is the program a candidate for realignment with the provinces?*
- *Partnership Test: What activities or programs should or could be transferred in whole or in part to the private or voluntary sector?*
- *Efficiency Test: If the program or activity continues, how could its efficiency be improved?*
- *Affordability Test: Is the resultant package of programs and activities affordable given the government's overall fiscal objectives? If not, what programs or activities should be abandoned?*

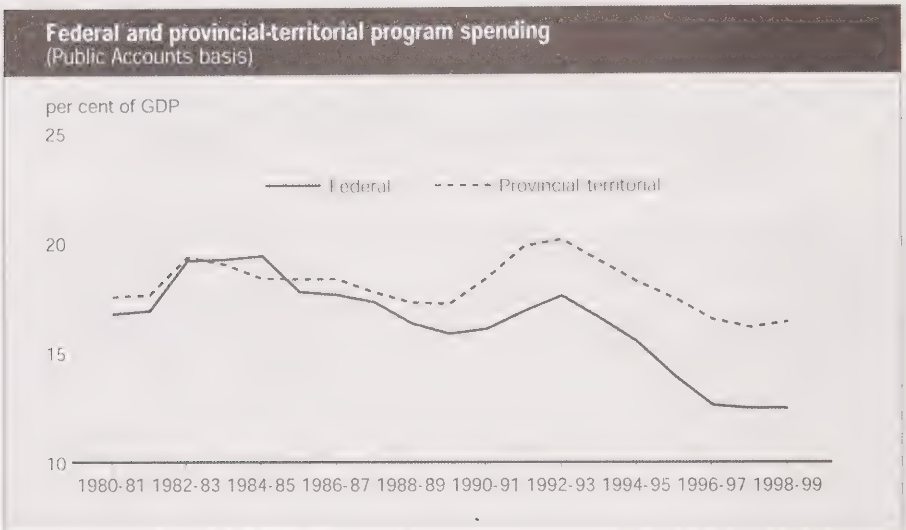
When one analyzes the impact of corporate and personal income tax reductions on personal and business investment, risk taking, innovation and other factors that drive economic growth and social development, one sees that debt reduction and thoughtful tax cuts are mutually complementary.

Financial Executives Institute Canada

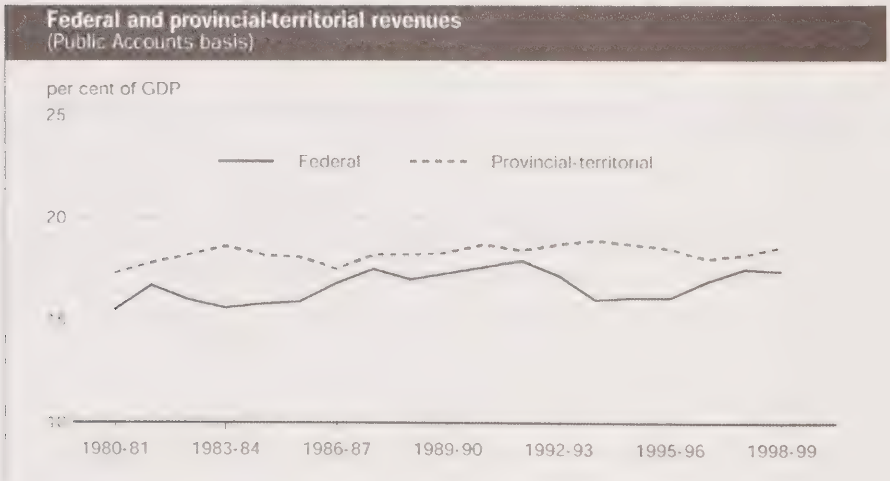
The economic and fiscal scenario presented earlier is consistent with the forecasts used by private-sector economists in their recent meeting with the Department of Finance. The Royal Bank analysis has recently been extended to the fiscal position of the provincial governments.[15] Their prospects for fiscal surpluses are approximately on par with that of the federal government, with an aggregate surplus of $15.6 billion projected for the year 2004-05.

15 John McCallum, *Relative fiscal power: Ottawa versus the provinces*, Current Analysis, Royal Bank of Canada, September 1999.

This view is also consistent with recent data provided by the Department of Finance.[16] With the exception of Ontario, British Columbia, Nova Scotia and Yukon, all provinces and territories now have balanced budgets or surpluses. Collectively, they have a far lower debt burden than the Government of Canada and their debt servicing costs are lower as a result. Their tax base is not far different from that of the federal government, with revenues growing at approximately the same pace.



The Committee's Five-Year Tax and EI Premium Reduction Plan is based on the economic and fiscal environment presented by the Minister of Finance in the *Economic and Fiscal Update: Translating better finances into better lives*. This plan calls for a $3 billion incremental tax cut for the first four years and a $4 billion cut in the fifth year. It builds upon recent federal government initiatives to start the process of tax reduction. The economic environment in which it is formulated is broadly consistent with the economic and fiscal projections of private sector economists.



[16] Canada, Department of Finance, *The Fiscal Balance in Canada*, August 1999.

The Federal Government's Record on Tax Cuts

In the past two budgets, the government introduced $16.5 billion in tax relief over three years.

For 6 consecutive years, the government has reduced Employment Insurance premiums — from $3.07 per $100 earned to $2.40 for the year 2000.

- *This has saved employees and employers $5.2 billion since 1994.*

In the 1999 budget the Canada Child Tax Benefit (CCTB) was broadened and enhanced by an additional $300 million.

- *Providing increased child benefits to 2 million families.*

The 1998 and 1999 budgets eliminated the 3% surtax on personal income for all Canadians.

- *All taxpayers were liable for the surtax, therefore all 15.7 million taxpayers benefit.*

In the 1998 and 1999 budgets the Basic Personal Exemption was increased by $675 for all Canadians.

- *Removing 600,000 Canadians from the tax rolls.*

The 1998 budget increased the limits for childcare expense deductions to $7,000 for children less than 7 years of age and to $4,000 for children between 7 and 16.

To improve equity in the tax treatment of self-employed Canadians, the 1998 budget made it possible for all owner-operators of businesses to deduct premiums for health and dental insurance against their business income.

The new caregiver credit, introduced in the 1998 budget, reduced federal tax by up to $400 for Canadians caring for an elderly parent or a family member with disabilities.

- *This extended assistance to 450,000 caregivers.*

The 1998 budget gave tax assistance for Canadians seeking access to knowledge and skills by offering tax relief for interest payments on student loans, tax-free RRSP withdrawals for lifelong learning, and an education credit and child care expense deduction for part-time students.

The 1998 budget provided a Canada Education Savings Grant of up to $400 per year.

The 1997 budget allocated $850 million to create an enriched Child Tax Benefit.

The 1998 budget increased this by an additional $850 million.The 1996 budget provided an unlimited carryforward of unused RRSP room.

The Business Council on National Issues (BCNI) in a September Memorandum to the Prime Minister, wrote that "our central message is one of urgency. Canada has very little time to act, and the costs of inaction are likely to be severe within a remarkably short period of time." Action must not only come quickly, it should provide a longer-term perspective and a longer-term plan. That is precisely what we present in the Committee's Tax and EI Premium Reduction Plan.

Now that the federal has been able to meet or surpass its various targets in several consecutive budgets, now is the time to 'raise the bar' and begin setting longer-term targets for debt and tax reductions, expenditures, and relevant budgetary areas.

Financial Executives Institute Canada

It is the view of the Committee that this Tax and EI Premium Reduction Plan still leaves the federal government room to manoeuvre, so as to deal with other priority items and other contingencies. It bears repeating that the economic and fiscal scenario already assumes growing program spending, approximately 2.7% per year, from about $111 billion today to approximately $128 billion in 2004-05. It provides for debt reduction of $3 billion per year through the contingency reserve. It provides an additional buffer through a transparent economic prudence factor, growing from $1 billion in 2000-01 to $4 billion in 2004-05. Finally the plan leaves an unallocated amount, $2.5 billion in 2000-01 growing to $8 billion in 2004-05, that is available for further tax reduction, further debt reduction, Throne Speech commitments and other new program initiatives and unexpected economic events. At this point it is useful to repeat our earlier recommendation that the federal government should strive to keep real program spending constant and that any deviation from this growth should be justified by program review.

This scenario also takes into account the recently announced 15-cent reduction in EI Premiums that takes effect on January 1, 2000 and which will cost the federal government about $1.2 billion every year.

[T]his committee has an historic opportunity to discuss the whole approach we take to how we manage the surplus in the future, which will have an important implication on both the programs this government has, the overall expenditures of government and more importantly the economic development of the country.

Canadian Chemical Producers Association

TABLE 1
THE COMMITTEE'S TAX AND EI PREMIUM REDUCTION PLAN
(in billion $)

FISCAL YEAR	SURPLUS	CONTINGENCY RESERVE PLUS ECONOMIC PRUDENCE	DISCRETIONARY SURPLUS	TAX AND EI PREMIUM REDUCTION
2000-01	9.5	4	5.5	3
2001-02	13.5	5	8.5	6
2002-03	18.5	6	12.5	9
2003-04	24.0	6.5	17.5	12
2004-05	30.0	7	23	16

Table 2 presents a picture of comparative taxes levied by Canada and other G-7 nations. It documents the same trends that can be found in our previous Pre-Budget Reports. While the burden of taxation in Canada is slightly lower than the G-7 average, the burden here is substantially higher than in the United States, 36.1% of GDP vs. 28.4% of GDP. As well, Canada is unique in its heavy reliance on personal income taxes, 30% higher than in the United States and 46% higher than the G-7 average.

Canada's tax system is uncompetitive and overdue for reform. With a sizable surplus in sight, the conditions are favourable for adjusting the economic levers now.

Toronto Board of Trade

TABLE 2
TAX REVENUES IN G-7 NATIONS
(all governments)
as a % of GDP

	TOTAL	CORPORATE INCOME TAX	PERSONAL INCOME TAX	PAYROLL TAXES	CONSUMPTION TAXES	OTHER TAXES
G-7	36.5	3.1	9.5	11.5	9.2	3.2
Canada	36.1	3.3	13.9	6.0	8.7	4.2
U.S.	28.4	2.7	10.7	7.0	4.9	3.1
Japan	28.5	4.7	5.7	10.4	4.4	3.3
Germany	38.1	1.4	9.4	15.5	10.6	1.2
France	45.6	1.7	6.4	20.8	12.4	4.3
Italy	42.5	4.0	10.8	14.8	10.6	2.3
U.K.	35.9	3.8	9.3	6.2	12.7	3.9

Source: "Looking Ahead to Canada's Federal Budget 2000," *TD Economics*, October 28, 1999.

Tax relief is what Canadians deserve now and tax reform is what Canada requires quickly to regain and sustain competitive advantage in the global economy.

Information Technology Association of Canada

There are a number of reasons why tax relief should be at the top of the list of government priorities. In the first place, to quote the Minister of Finance, "... Canadians are entitled to keep more of the money they earn. After all, they worked for it. It's theirs. Canadians had to pay more taxes when we were in deficit and the debt was increasing. They have a right to expect government to reduce taxes now that the era of surpluses is here." (*Economic and Fiscal Update,* p. 16)

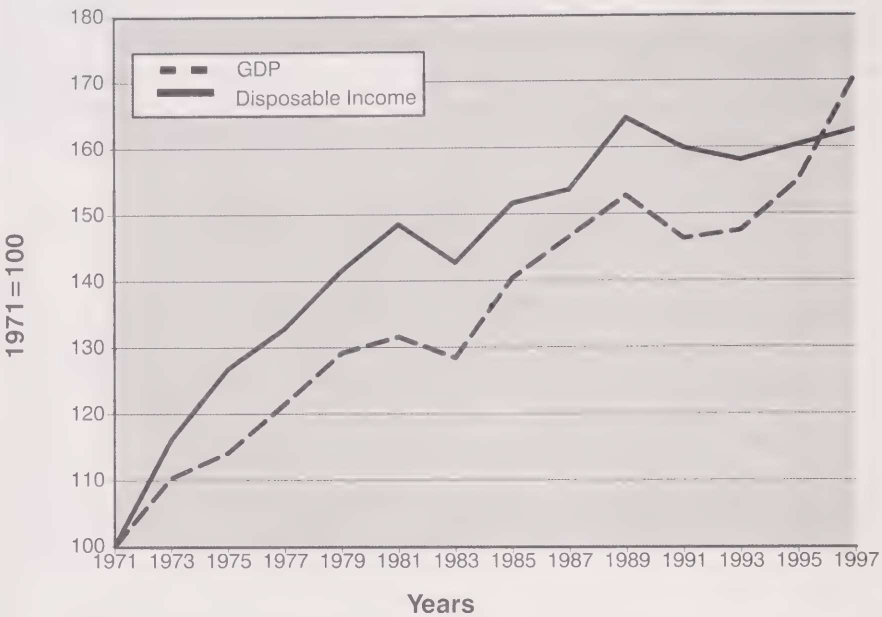
Personal disposable income on a per-capita basis after inflation declined in Canada from 1989 through 1998 by 5%. This is in contrast to an increase of 9.9% in the United States.

Canadian Restaurant and Foodservices Association

The federal government and many provincial governments have addressed successfully their annual budgetary problems, and those that have not, are on the verge of doing so. Significant tax relief is thus a realistic policy option today, whereas it was not only a few years ago.

Statistics Canada reports that the after-tax real income of Canadian families has remained virtually unchanged since 1989, although it is now starting to grow with real after-tax incomes up 3% per capita in the last three years. This is evident from Chart 1 below. Tax relief can help improve the standard of living of Canadian families directly by increasing their disposable income, something that, according to the Minister, they have a right to expect.

Chart 1: Per Capita Real GDP and Real Disposable Income Canada



Source: Statistics Canada and Parliamentary Research Branch

The second reason for suggesting tax relief is the fact that Canadians face a higher tax burden than they did two decades ago and a higher burden than do Americans. This is true even when we take into account the fact that certain goods and services, most notably health care, are delivered largely through the private sector in United States but publicly in Canada.[17] This higher tax burden in Canada makes our tax system and economy less competitive vis-à-vis the United States. This is particularly true of the personal income tax, one which is used to a substantially greater degree here than south of the border. As noted by the Conseil du Patronat du Québec, an excessively high tax burden encourages tax evasion, participation in the underground economy and an exodus of skilled workers, especially the young. The increasing openness of the Canadian economy to international trade, capital flows, and labour flows, makes it increasingly important that our tax system be competitive with those of other countries. This is particularly important with respect to our trading partners. The introduction of free trade agreements with the United States and Mexico has not only helped to substantially increase our

In a context of free trade, continuing integration of the Canadian economy in the North American economy and market globalization, we think that the federal government must commit more fully to reducing the taxpayer's tax burden in order to improve our economy's capacity to compete, to promote long-term economic development and to foster job creation.

La Confédération des caisses populaires et d'économie Desjardins

17 Most Canadians would be surprised to learn that, according to OECD statistics, the United States spends virtually the same amount on public health care as does Canada, when measured as a proportion of GDP. Moreover, as U.S. GDP per capita is higher than in Canada, Americans spend more on publicly funded health care than do Canadians.

Figures for 1996 indicate that the United States devoted 6.3% of GDP to public expenditures on health care while Canada devoted 6.4% of GDP. While the relative importance of Canadian public spending on health care declined slightly from 1986 to 1996, American public spending on health care increased substantially, from 4.4% of GDP in 1986 to 6.3% of GDP in 1996.

dependence upon international trade, it has also increased our reliance upon the United States as a trading partner.

And this is the comparison that is most vital. While our tax system may rate favourably with a number of industrialized countries, it is the United States with which we conduct the bulk of our trade, with which we have the closest financial links, and where our highly skilled labour is most likely to migrate. To see how the level of taxation might have adversely affected economic growth in Canada, one can compare the Canadian and American tax burdens over time and relate them to the respective rates of income growth and unemployment. In the 1960s, for example, the Canadian tax burden was roughly equivalent to that of the United States, expressed as a proportion of GDP. At the same time, GDP was growing at a faster rate in Canada than in the United States. Since then, the tax gap has steadily grown, with Canadians facing an ever-increasing tax burden compared to that of Americans. (Today we pay almost 8% of GDP more in taxes than do Americans.) And while this was happening, the American growth rate had steadily and continually surpassed our own.

A similar picture is true with respect to the unemployment rate. When the tax gap between Canada and United States was small, the difference in unemployment rates was also small. As the tax gap grew, especially through the 1980s and 1990s, so did the difference between the Canadian and American unemployment rates. Today the Canadian unemployment rate is about three percentage points higher than the American rate.[18]

There are many factors that affect the relative performance of the American and Canadian economies, with taxation being only one of them. Nevertheless the evidence is clear, as Canadian taxes grew in relationship to American taxes, Canadian economic performance declined relative to that in the United States.

This point was emphasized by the Canadian economist Robert Mundell, in an interview subsequent to receiving the Nobel Prize in Economics. In response to a question about tax cuts, he said:

> Every country has to decide what proportion of total output of the society it wants the government to organize spending for. In Canada, it might be 50%. In the United States, it might be less than 40%. In Sweden, it goes up to 65% . . . .
>
> But my take on this is that the higher the marginal tax rates to support that level of spending, the less efficient economy we'll have and the lower growth will be. The issue to me is that ***if we want to make the pie bigger, the way to do that is to have an efficient tax system.*** Any tax rate, once it gets above 30%, just involves too many

> *[P]ersonal and corporate income taxes must be reduced. To quote an authority on this who said :* We've got to bring our taxes down as quickly as we possibly can. They may be a factor in productivity. They may be a factor in the brain drain. But we don't need those reasons to do it. The Honourable Paul Martin, Minister of Finance, June 1999.
>
> **Canadians Construction Association**

> *The best way all Canadians can benefit from the improving fiscal situation is to ensure that Canada's economy continues to grow and there are more job opportunities.*
>
> **Canadian Federation of Independent Business**

18 R.D. Brown, "Tax Reform and Tax Reduction: Let's Do the Job Right," *Canadian Tax Journal*, 1999, Vol. 47, No. 2.

> people in avoiding it or evading it illegally and it becomes counterproductive. It inhibits growth and therefore reduces future tax revenues.

In response to a further question on the disincentives associated with high marginal tax rates he replied:

> In a closed economy with a very high tax rate, people will decide they are not going to work . . . .But in an open economy, it's much more dangerous. Because of high tax rates people will go to other areas. They'll leave the country, they'll go to other provinces and they'll go the places where they don't have to pay these taxes. They'll go to that international no-man's land where people can evade taxes completely. When a country has higher tax rates than its neighbours, you suffer from brain drain.[19]

Meaningful corporate tax reforms are needed of the type that will make Canada stand out as a prospect for international investors. CCPA is currently working to identify specific reforms to recommend at the appropriate time, perhaps in next year's consultation process, once the most urgent personal tax issues have been addressed.

Canadian Chemical Producers' Association

While it is important that the Canadian tax system be internationally competitive in terms of rates, it is also important that the system be competitive in terms of its structure. Put simply, this means that tax relief by itself might not be enough if that relief is provided in the wrong areas. It must address the deficiencies that are inherent in our tax system. In other words, tax relief should be the catalyst for tax reform as well.

The Mintz committee on Business Taxation provides an example of the necessity of combining tax relief with tax reform. It is well known that the business tax system treats different sectors differently and distorts economic behaviour. That committee was given the mandate to study, and suggest reforms to the system of business taxation within the constraint of revenue neutrality. Tax reform is much easier to implement when all taxpayers receive some relief. This is equally true of the personal income tax. The prospect of tax relief will enable a more profound and necessary reform of the tax system as long as all taxpayers will see lower taxes as a result of that reform.

In conducting such a profound reform, the federal government would have the opportunity to enhance horizontal equity of the personal income tax system. This concept reflects the extent to which taxpayers in similar circumstances are treated equally. In other words, it deals with the extent to which the tax system reflects special circumstances. Many witnesses during these hearings, and in the past, have remarked upon the fact that Canada is unique in not recognizing dependent children in the tax system. This is a clear violation of the principle of horizontal equity, and tax reform can address this issue.

Horizontal equity is concerned with more than children, however. Those who are disabled, or those who care for the disabled face a variety of non-discretionary expenses that are not recognized by the tax system. While

19 "Father of Reagan tax cuts says it's Canada's turn," *The National Post*, November 2, 1999. Emphasis added.

the government has initiated measures in the past to deal with these special circumstances, some witnesses feel it has not gone far enough.

The Committee recommends, therefore, that personal income tax reform give high priority to ensuring that the personal income tax system meet the criteria of horizontal equity, particularly with respect to dependent children and disability.

Finally, a further case for tax reduction is contained in the Statement of the Provincial and Territorial Finance Ministers released on December 3, 1999. That document points out that taxes consumed 60% of the total increase in Canadian GDP between 1980 and 1996. In the United States, the figure was 34.3% while it was only 32.4% in other G-7 nations. This trend was one of the reasons that communique called for a significant reduction in the tax burden on individuals.

I would just note that the income tax is not a tax on being rich, it's a tax on getting rich, and that if you're a young person who wants to get rich you're probably going to go to a jurisdiction that doesn't tax you high on the margin. I am one of those who thinks that high marginal income tax rates potentially create a brain drain problem. I am concerned about it, though I certainly agree that there's much more to the brain drain issue than the level of taxation.

David Laidler

The Personal Income Tax

In 1980 personal income taxes in Canada were equal to 10.9% of GDP, only slightly higher than in United States. By 1996 the same taxes were accounting for 13.9% of GDP, 30% higher than in United States. Indeed the Canadian reliance upon personal income taxes is far higher than any other G-7 country or the OECD average, as seen earlier in Table 2. One reason for this growing reliance upon personal taxation is the fact that full indexation of the tax system was terminated in 1985.

Many analysts believe that the priority for tax relief rests with the personal income tax. This is due to the fact that some of the greatest economic distortions come about here. The marginal tax rate (ie. the tax rate that applies to an additional dollar of income) faced by Canadians at even modest income levels is high, causing a variety of perverse economic incentives, such as reduced attachment to the workforce or reduced work effort, reduced risk taking, and reduced savings. In addition the tax on income from capital is also excessively high compared to the United States, particularly with respect to capital gains where our effective tax rate is approximately twice that south of the border.

The P&C insurance industry encourages the Federal Government to begin reducing Canada.s personal income tax burden as a percentage of GDP, to a level more in line with the average of OECD countries.

Insurance Bureau of Canada

The TD Bank has calculated Canada's effective income tax burden by looking at the sum of personal income taxes and payroll taxes as a proportion of personal income.[20] This ratio has been consistently and substantially growing since the middle of this decade, a growth that cannot be explained by higher payroll taxes. It is partly due to employment growth, especially full-time employment growth. The corporate tax burden, while also growing since the mid 1990s, appears to have levelled off, in contrast to the personal tax burden.

20 "Looking Ahead to Canada's Federal Budget in 2000," *TD Economics*, October 28, 1999.

In its submission to the Committee, CN viewed tax reduction as an important tool for enhancing productivity. It recommended that the government:

> Reduce personal income tax levels. This is not about giving people a tax break; it's about location of economic activity. Canada must compete in an increasingly integrated North American economic unit. Any significant tax differentials risk forcing companies, such as CN, that must attract highly qualified management talent, to locate key activities in the United States.

Another notable feature of the Canadian personal income tax is the fact that it is highly progressive at low and moderate income levels, reaching the top rate at about $60,000. It effectively becomes a flat tax after that point. Not only is the top rate in Canada high by American standards, it takes effect at an income level which is about one-sixth of the American threshold.

[A] survey indicated that problems in retaining and acquiring skilled personnel are in part attributable to Canada's relatively high level of personal taxation.

Alliance of Manufacturers & Exporters Canada

Thus while it is true that high income Canadians face higher tax burdens and higher marginal tax rates than do high income Americans, the real disparity between the two tax systems is found at the middle income level.

One way to establish the prime candidates for tax reduction is to consider a concept called the marginal efficiency cost of taxes. This technical concept, also referred to as the excess burden of taxation, measures the extent to which a particular tax reduces economic welfare through the distortions it produces. In other words, it measures the cost to society of a tax, over and above the revenue that it raises for governments. This burden comes about because taxes alter the pattern of economic behaviour — economic behaviour is not just based upon the scarcity of resources or rates of return, it is based on tax considerations as well. If a tax reduces the rate of capital formation, for example, an economy will have less capacity to produce output because the stock of capital will be lower than it might otherwise have been and it will be of an older vintage. Labour will be less productive as a result. Consequently, future output and income will be lower than they would otherwise be. The same is true of future tax revenues.

Similarly, if a tax reduces entrepreneurship, fewer new companies will be established. Not only will employment growth be smaller, Canada's conversion into a new economy will also be retarded. Productivity will be lower, leading to lower real wages and standards of living.

Different taxes affect the economy in different ways. Some primarily affect the supply of labour or its quality. Some primarily affect savings decisions, while others affect the investment decisions of business firms. Sometimes these taxes affect individual economic welfare without having much of an impact on measured GDP, whereas in other cases the impact on GDP can be substantial. In some cases, taxes move economic effort towards the underground economy merely to evade taxation. While economic activity is still taking place, it is likely to be far less efficient as production techniques

are chosen not for their efficiency but rather to be invisible to the taxman. From the point of view of economic efficiency, tax decreases should be targetted at those taxes where the marginal efficiency cost is highest.

> *An oft-told historical example of the distorting effects of taxation comes from the old English practice of taxing homes on the basis of the number of windows. This was done on the premise that, as glass was expensive, the number of windows in a home was an indication of the wealth of the owner. This led to the common practice of bricking up windows in order to reduce taxes, a practice also followed in early Canadian cities. While such a tax might have had little impact on economic output, it clearly lowered the welfare of homeowners who adjusted their behaviour in response to the tax and chose to live in a less pleasant environment.*

According to some American estimates, the efficiency cost for taxes at the individual income level are about 52 cents for every dollar of tax raised. (i.e. every dollar of taxes not only takes a dollar away from the private sector but ultimately reduces output by 52 cents as well.) This is about twice the efficiency cost of sales taxes and is about 1/2 the cost of taxes applied to capital income at the individual level.[21]

Similar estimates have been calculated for the Canadian tax system. The basic personal income tax is estimated to generate an economic loss of 38 cents for every dollar of tax collected. However, if we consider only the high income surtax, that component of the tax system generates an economic loss in excess of $12 for every dollar of tax collected.[22] This surtax is imposed on the highest marginal tax rate applied by the personal income tax system and, in large part, is applied against income from capital

While these specific estimates are subject to debate, the concept is one that is generally accepted by economists, as are the conclusions about the relative costs imposed by the various taxes. A tax that is applied primarily to investment income, i.e. income from capital, will generally have a greater negative effect on the economy than a tax that is applied to labour income at the same rate. A tax applied to consumption typically has the smallest adverse effect on the economy.

---

21 D.W. Jorgenson, and K-Y Yun, "The Excess Burden of Taxation in the United States," *Journal of Accounting, Editing and Finance*, Fall 1991.

22 B. Dahlby, "The Distortionary Effect of Rising Taxes," in W.B.P. Robson and W.M. Scarth eds., *Deficit Reduction: What Pain, What Gain?*, C.D. Howe Institute Policy study 23, 1994.

Another example of dead-weight loss caused by taxation was provided by William Watson of McGill University in a column appearing in the Montreal Gazette. To paraphrase that column, Mr. Watson explained that he was spending Super Bowl Sunday repairing a door in his house, a task for which he was particularly unsuited. Why?

The local handyman also wanted to watch the Super Bowl but was willing to give up this pleasure for $100 in his pocket. Being a successful handyman, he was in the 50% marginal tax bracket, and would require, therefore, a $200 payment to be able to keep $100. Mr. Watson, also being in the 50% tax bracket, would have to write $400 worth of columns to pay the handyman $200, of which he would only keep $100. Being honest fellows both, and rational individuals, the deal was not consummated.

Mr. Watson subsequently hit his thumb with a hammer.

Several comments are appropriate here regarding the nature of these estimates. As the degree of taxation is higher in Canada than it is in the United States, one should expect the excess burden to be higher here as well, all other things being equal. This is not a controversial conclusion. As Pierre Fortin notes, "There is a strong presumption in the public finance literature that inefficiencies caused by rising taxes and transfers — ranging from standard distortions in resource allocation to tax evasion and migration — ***increase more than proportionately*** with the tax-and-transfer rates."[23] This is an important conclusion when we recognize that the tax burden rose from 30% of GDP in 1980 to 38% in 1998 while transfers rose from 9% to 17% of GDP over the same period. Each has its own set of deleterious efficiency effects which are, in many respects, additive.

Secondly, it is important to distinguish between the average and marginal excess burden of taxation. While a tax system might generate a small excess burden on average, the burden on the last dollar raised will typically be much higher because this is the dollar of tax revenues that is raised within the context of high tax rates. Therefore the beneficial effects of tax cuts will typically be much higher than is suggested by the estimates of average excess burden.

Thirdly, when the excess burden is high, it is difficult to answer the question "who bears the true burden of a tax?" It is useful to once again refer to the 5% surtax. Superficially, this is a tax that affects only high-income taxpayers. But if it has a large distorting effect on the economy, the consequences are not limited to those who directly pay this tax. They will likely spread to all parts of the economy and a wide range of taxpayers. Indeed, it could impose a burden on individuals who are not even taxpayers. The same type of analysis applies to business taxes. These taxes are not necessarily borne by shareholders. If they lead to less investment, real wages and/or

23 Pierre Fortin, *The Canadian Standard of Living: Is There a Way Up?* C.D. Howe Institute Benefactors Lecture, 1999. Emphasis added.

employment will decline. To that extent, the burden will fall on workers and not shareholders.

The fact that tax relief and reform could have these beneficial effects some time in the future means that they do not limit the ability to achieve other policy goals (enhanced program spending, faster debt reduction, etc.) as much as appears at first glance. The Committee does not wish to be extravagant in its claims and does not believe that all revenue given up, or even a very large proportion, will be recouped. Moreover, it is not obvious how long it will take for these beneficial effects to manifest themselves. But, as Dale Orr chief Canadian economist for WEFA Inc. has stated, "If Ottawa cuts personal income taxes, it will recover between 20 per cent and 50 per cent of the lost revenue."[24] If this assessment is correct, it puts a very different light on a tax relief/reform agenda. But it is possible that some particular tax cuts might be recouped. As a recent American study put it, " . . . it appears highly unlikely that past tax reforms have been self-financing in the aggregate. There is empirical evidence that tax changes focused on high-income taxpayers may be self-financing, perhaps because of changes in financial arrangements as well as shifts in economic activity."[25]

The federal government will have a significant impact on agricultural production developments based on its spending choices. These include key areas such as regulation, facilitating market access, meeting the public's information needs, cost recovery and fostering an environment supportive of economic growth."

Crop Protection Institute

Finally, as the tax effect works through the incentives facing taxpayers, expectations can be important. A credible longer-term tax relief program will likely have a more profound effect than uncoordinated short-term policy announcements. This is especially true with respect to savings and investments, where the returns will accrue well into the future.

According to an OECD study, using some models developed by the Canadian Department of Finance, it is possible that up to one-third of the decline in economic growth rates since the 1960s has been due to the rising tax burden in OECD countries and the particular tax mix they have chosen to use. Again, these results are not conclusive but they do suggest that "shifting from capital to sales taxes or from labour taxes to sales taxes would lead to small permanent increases in the rate of growth that, in the long run, would have significant effects on income levels."[26] Now that the government has the room to cut taxes instead of just shifting them to other activities, the beneficial effects could be large over time.

Canadians are at a significant disadvantage in terms of their ability to save for their retirement when compared to the major trading partners. . . . In order to ensure that Canada's retirement income system is governed effectively, CDA supports the five principles [Fair and equitable; sustainable; comprehensive; predictable; competitive] endorsed by the Retirement Income Coalition.

Canadian Dental Association

This discussion demonstrates the primary concern of the Committee, namely to enhance the ability of the economy to generate a higher, and rapidly growing, standard of living for Canadians. Tax reform and relief have the potential of playing the key role in a productivity or growth agenda.

Once we recognize this important role, we can look at tax relief in a new light. Tax reductions can have favourable effects on those who are not directly

24 Bruce Little, "Canada's high taxes stem from large debts, not big hearts," *The Globe & Mail*, October 18, 1999.

25 Eric Engen and Jonathan Skinner, "Taxation and Economic Growth," *National Tax Journal*, Vol. 49, No. 4, 1996, p. 636.

26 W. Leibfritz et al, *Taxation and Economic Performance*, Economics Department Working Papers No. 176, OECD, 1997.

touched by the reduction. Tax reductions aimed at savings or capital gains, for example, deliver beneficial results (greater investment, research and development, and risk taking; Canadian businesses that are more internationally competitive) to the entire economy and hence to all Canadians. The same is true of taxes aimed at business, just as it is true of taxes primarily aimed at upper-income taxpayers.

While we do not expect the government to open the floodgates in support of spending on social programs, we ask the committee in its recommendations concerning tax reductions and reform as well as expenditures on social infrastructure to consider the needs of some of Canada's most vulnerable citizen.

Multiple Sclerosis Society of Canada

In addition, we should also consider the benefits that are provided by the programs paid for by taxes. Nevertheless, this type of analysis does remind us that government programs are more costly than just the direct expenditure associated with them - they are costly because of the way in which they are financed. As well, this analysis suggests that, while the overall extent of taxation might be appropriate, the particular mix of taxes might not be.

Some Options for Personal Tax Relief/Reform

In order to reduce the personal income tax burden on Canadian families, the federal government has a variety of choices. Tax relief will obviously reduce the average tax rate faced by Canadian households. It will not necessarily reduce the marginal tax rate faced by all taxpayers, even though all, or a large number, may benefit from the reduction in the tax burden.[27] The greatest economic gains, however, will be achieved when marginal tax rates, especially the highest ones, are reduced.

The federal personal income tax is levied at three rates: 17% on income up to about $30,000, 26% on income between $30,000 and $60,000, and 29% on all income in excess of $60,000. In addition a high-income surtax of 5% remains, which increases the top federal marginal tax rate to about 30.5%.

The federal personal income tax also provides a credit for individual taxpayers and for dependent spouses. Once the 1999 budget measures are fully in place, these credits will exempt from tax $7,131 of income in the case of individuals and $13,186 in the case of married couples with only one income earner, or single parents.

[F]amily caregivers should be recognized in both taxation and pension measures.

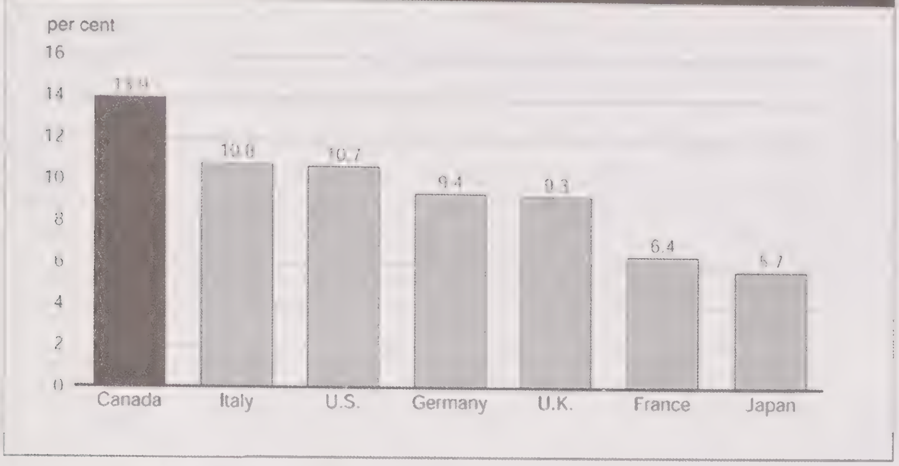
The National Council of Women of Canada

Finally, the definition of the base for income tax purposes will also have a significant effect on tax burdens and effective tax rates. In particular, our personal tax system is a cross between an income tax (although not fully comprehensive) and a consumption tax. The partial inclusion of capital gains and the provision which allows retirement savings to be deducted from income make the base something like a consumption base. These RRSP provisions allow up to 18% of earned income to be deposited into the retirement savings account, up to a maximum of $13,500 per year.

27 The 1998 budget measures that eliminated, or reduced the 3% surtax for most taxpayers, and effectively increased the basic and spousal credits for lower-income taxpayers, had the effect of increasing effective marginal tax rates for some taxpayers. While it seems ironic that tax reductions could actually increase marginal taxes, this is an inevitable result of targetted measures.

The 1999 budget corrected this when it extended these measures to all taxpayers.

Personal income tax[1] as a percentage of GDP, G7 countries, 1996



[1] The Canadian figure includes federal and provincial taxes
Source: *OECD Revenue Statistics, 1965-1997*

The discussion of general tax relief, and tax reform, typically involves changes to these above-noted features of the personal income tax system. Thus the government could increase the basic and spousal amounts to provide tax relief to all who are in a taxable position, it could reduce the marginal tax rates that apply to the three brackets, it could reduce or eliminate the high-income surtax, it could increase the thresholds at which the second and highest tax rates take effect and it could redefine the base upon which tax is levied.

We will consider below the consequences of each of these alternatives.

1. Basic personal and spousal credits

The 1998 and 1999 budgets combined to increased for all taxpayers the basic personal and spousal credits amounts by $675 each. This has the effect of increasing the amount of income that individuals and families may earn without paying tax. While this benefits all taxpayers, it has no impact on the marginal tax rates facing most Canadian taxpayers.

Increasing these credit amounts has a greater proportionate impact on lower-income taxpayers than it does on higher-income taxpayers.

Every $100 increase in the basic personal amount costs the federal government $240 million, while every $100 increase in a spousal (and equivalent to spousal) amount costs the federal government $40 million. The 1998 and 1999 budgets removed 600,000 Canadians from the federal tax roles, at a cost estimated to be $1.8 billion in the year 2000-01.

As part of a truly balanced budget approach which would embrace large scale social reinvestment and fair tax reforms, the CLC supports a substantial increase over time in the basic federal tax credit, as well as the full indexation of credits and tax thresholds to the rate of inflation.

Canadian Labour Congress

2. Tax bracket thresholds

As of 1985, the thresholds at which the various tax brackets commence have been subject to indexation only for inflation in excess of 3% per year. Since 1992, inflation has been below 3% and, as a result, the thresholds have not changed. Over time, this partial indexation has allowed large numbers of

taxpayers to migrate to higher tax brackets, even in the absence of real increases in their income.

There is a more fundamental question, however: are the tax brackets too narrow and does the upper bracket take effect at a level of income which is too low? (The current tax brackets are the result of income tax reform that reduced the number of brackets to 3 from 10 and converted many exemptions and deductions into non-refundable credits.) Moreover, when we consider the fact that the middle tax rate is almost the same as a high tax rate and that both of these are high by international standards, it becomes evident that middle income Canadians are being taxed at rates in excess of those applied to high-income residents in United States.

There are compelling arguments favouring taxation reforms especially in light of modest income growth of most Canadians. The federal policy of only partially indexing the tax system has resulted in pushing Canadian tax payers into higher tax brackets simply because indexation does not get triggered until inflation is above 3%. Credit unions would like to see a commitment from the government to reduce the tax burden in the 2000 Budget.

Credit Union Central of Canada

The narrow range of the tax brackets also has a significant impact on the issue of the taxation of families, which has recently been the subject of considerable debate and upon which a subcommittee of the House of Commons Standing Committee on Finance issued a report.[28]

One of the major reasons why middle-income single-earner families pay more tax then do dual-earner families with the same total income is the fact that the middle tax rate is substantially higher than the lowest tax rate and the threshold at which it starts, namely $30,000, is quite low. Middle-income families with only one-income earner will find a relatively large proportion of their income taxed at a federal rate of 26% while similarly situated families with dual incomes will find almost all of their income taxed at a federal rate of 17%.

Any reform which increases the threshold at which the middle tax rate takes effect can have a substantial impact in reducing the tax disparity between single earner and dual earner families, without affecting those specific tax measures aimed at dual-income families, such as the Child Care Expense Deduction.

The highest federal tax bracket takes effect at an income of $60,000 which is approximately one-sixth the income level at which the highest American tax rate takes effect. (Moreover, the highest American tax rate is less than the Canadian rate.)

These thresholds create a personal income tax system that is highly progressive at low income levels but effectively becomes a flat tax at middle income levels. This degree of progressivity exceeds that found in other countries and affects a significant proportion of the tax paying population. It is one of the reasons why the Canadian personal income tax generates such large revenues in proportion to GDP.

To demonstrate the significance of the existing threshold amounts, consider the following hypothetical tax change, namely raising the threshold for the middle tax bracket from approximately $30,000 to $40,000 while

---

[28] See Sub-Committee on Tax Equity for Canadian Families with Dependent Children, *For the Benefit of our Children: Improving Tax Fairness*, June 9, 1999.

similarly increasing the threshold for the top rate by $30,000. The cost to the federal government of the first part is approximately $4.5 billion per year while the cost of the second part is approximately $590 million per year.

There are two reasons for this large disparity. In the first place the number of taxpayers affected by the first change is extremely large, about 6.6 million. In the second place, taxable income between $30,000 and $40,000 would enjoy a drop in the marginal tax rate from 26% to 17%, a drop of one-third. The number of taxpayers affected by even a $30,000 increase in the threshold for the top bracket is much smaller, only 1.5 million. Moreover, the marginal tax rate for income between $60,000 and $90,000 would fall from 29% to 26%, a decline of only one-tenth.

Partial de-indexation of the personal income tax system as well as the Canada Child Tax Credit and the GST credit have both increased the overall tax load of Canadians and shifted a greater burden of taxation onto low-, modest, and middle-income earners.

Citizens for Public Justice

3. Marginal tax rates

The federal income tax system has three rates: 17%, 26%, and 29%. There remains a 5% surtax on high-income taxpayers which increases their effective federal marginal tax rate to 30.5%. On top of these federal rates (not the surtax, however) are applied provincial income taxes which have the effect of increasing the tax burden by about one-half. When combined with provincial surtaxes, the top marginal tax rate is in the neighbourhood of 50%.

Marginal tax rates are important variables that affect the incentives facing individuals and businesses. It is "at the margin" that economic decisions are made.[29] It is the marginal tax rate that affects the amount of income retained from an investment, a promotion, a new job, overtime work, etc. And the higher the marginal tax rate, the greater will be the gap between pre-tax and after-tax returns to work effort, savings, investment, risk taking and entrepreneurial activity. Thus, higher marginal tax rates have even stronger effects on the working of the economy, productivity and economic growth.

It is not just the personal income tax system that effects the effective marginal tax rates facing Canadians. Payroll taxes such as employment insurance premiums and Canada Pension Plan (Quebec Pension Plan) premiums also affect marginal tax rates. In addition, however, the benefit reduction rates applied to a number of social benefits also work like tax rates in this regard. They have the effect of reducing the disposable income associated with any additional dollar of labour income or investment income. This is particularly true of the benefit reduction rates associated with the Canada Child Tax Benefit, the National Child Benefit, the GST refundable credit, and social assistance benefits. It is the combination of all of these that causes some Canadians at relatively low-income levels to face effective marginal tax rates of 40% and even 60%.

29 When discussing the many factors influencing the brain drain, reference is made to the average tax burden, not marginal tax rates. However, given the nature of the contemplated economic activity (i.e. moving from one country to another), it is the difference between one average tax burden and another which constitutes the marginal impact on the taxpayer. The notion of economic decisions being made at the margin is still valid. The same is true of tax evasion. When an individual chooses to operate in the underground economy, that individual takes himself or herself out of the tax system completely and this is, in effect, the marginal change.

There are a number of ways in which the federal government could deal with these high marginal tax rates. It could eliminate the 5% surtax that applies to high-income taxpayers. It could lower the three statutory rates. Or it could lower or even eliminate the benefit-reduction rates that apply to the Canada Child Tax Benefit.

The federal government has been reducing EI premiums on an annual basis for the past 6 years and has further reduced the premium by 15 cents per $100 of insurable earnings for the year 2000.

The Toronto Board of Trade reminded the Committee that the top bracket taxpayers are a small group, but one that is vital to the functioning of the economy. Only 4% of taxpayers earn more than $70,000 but they contribute 31% of all federal income tax revenues. As noted earlier, the marginal efficiency cost associated with the 5% surtax is particularly onerous. It is this group that has many economic options. Migration is easy and they have access to resources that allow them to reduce their taxes. Eliminating this tax would probably have a greater overall benefit for the Canadian economy than it would provide for the taxpayers to whom it applies. Department of Finance estimates indicate that eliminating this surtax completely would cost the federal government approximately $650 million in direct revenue losses.

The federal marginal tax rates could also be reduced. Reducing the highest rate by one percentage point would cost the federal government $550 million. Reducing the middle rate by one percentage point costs $1.05 billion. Finally, reducing the bottom rate by one percentage point costs $1.93 billion. Given the structure of personal income taxes in all provinces but Quebec, such reductions would automatically reduce provincial tax revenues as well. This is true of virtually all federal tax reductions, with the exception of the 5% surtax. However, it should be noted that provinces now have the ability to levy their taxes on income rather than on basic federal tax, while still participating in the tax collection agreement with the federal government. Should they choose to take advantage of this option, they can de-link their own revenues from that of the federal government.

Of the three marginal rates, the top contender for rate reduction is the middle rate. At 26%, it is only slightly lower than the top rate but one and one-half times as high as the bottom rate. Indeed, one could almost argue that the federal income tax system has only two rates and that the top rate takes effect at in income level of about $30,000. This is due to the fact that the federal government in the late 1980s did not complete the tax reform that it had originally promised.

4. The tax base

The choice of the tax base can have a significant impact on government revenues and on the efficiency of the economy. As argued above, it is high marginal tax rates that generally cause the most damage to the economy, to productivity, and to economic growth. A tax system that is applied to a comprehensive base will be able to employ lower marginal tax rates than a system that is applied to a narrow base. The income tax reforms of the 1980s attempted to do just that.

But there is another issue at hand when discussing the tax base. That is, should the base be income or consumption. It is well known that savings are subject to double taxation. An individual who consumes all of his/her income will face a lower total tax bill than someone who saves today to consume an extra amount tomorrow. This double taxation is an inherent disincentive to save.

As noted above, taxes applied to labour income or consumption are not as disruptive to the economy as taxes applied to capital income. The personal income tax in Canada applies to both labour and capital income. Three provisions which alleviate some of the tax on capital income are the partial inclusion of capital gains in the tax base, the partial integration of the corporate and personal tax via the dividend tax credit, and the deduction from income of contributions into certain registered savings plans. All of these measures have the effect of reducing the tax on capital income.

Whether or not these incentives are sufficient, or efficient, is the subject of some debate. In the United States, the effective tax rate on capital gains is about one-half that of Canada. If the Canadian government wishes to promote investment in new economy businesses, ones which are risky and ones in which the return is likely to take the form of capital gains, an effective tax rate closer to that of the American rate would be more conducive to such investments.

The financing difficulties of Canadian small businesses are well known. While much of the public debate centres around bank lending to SMEs, it is becoming increasingly evident that a large part of the problem rests with equity capital. Equity investment in small companies, start-up ventures, and young high-technology companies tends to originate in the local economy. It is usually not imported from outside. Thus the tax treatment of capital gains is likely to have a strong impact on the extent to which local investors are willing to take the high risks associated with the start-up and knowledge-based firms.

The Canadian tax system does not apply a separate tax to capital gains but rather subjects it to the same tax schedule applied to other income. It is the inclusion rate that determines the effective tax rate on capital gains. This inclusion rate has traditionally been 50% since the introduction of the capital gains tax, and was gradually increased to its current 75% over the past decade.

Two observations are relevant with respect to capital gains taxation. In the first place, the American tax rate on capital gains is substantially less than in Canada yet it supplies a much larger share of government revenues in the United States. This suggests that reduced tax rates on capital gains do not necessarily cost governments lost revenue. It should also be noted, however, that the capital gains tax regime is defined by more than just the rate. Exemptions, rollover provisions, the treatment of estates upon death, and features of the entire tax system are all important in determining the economic impact of capital gains taxes.

Secondly, although capital gains are primarily earned by higher-income taxpayers, this fact tends to be exaggerated. Capital gains tend to be realized in

a lumpy fashion. Rather than being spread equally over time, they are concentrated and sporadic - this is particularly true of small business owners who earn capital gains when they sell their business. Consequently, the lifetime income of those who earn capital gains tends to be lower than it is in the year in which they realize those capital gains.

The Investment Funds Institute of Canada also suggested that a two-tiered inclusion rate could be applied to capital gains, based on the holding period of the assets. Without further study, it is not clear what the appropriate holding period should be in order to earn a lower tax rate and what the administrative and compliance burdens would be. Moreover, it might influence the behaviour of investors, causing them to lock in their gains for longer periods of time just to earn a lower tax rate, something that the Committee is trying to avoid. We believe that investment decisions should be based on economic conditions, not be driven by tax considerations. Unlike most other types of income, taxpayers can decide when to realize the income and hence when to pay tax.

For many Canadians, RRSPs are the only hope for them to finance an adequate retirement income plan.

Canadian Federation of Independent Business

The taxation of capital gains is complicated by the fact that business firms have some leeway in the way in which profits flow to shareholders. Earnings can be distributed through dividends or if retained, would cause share prices to rise. If the tax rate on the two is different, an incentive is created to generate shareholders' returns in the least taxed manner. According to Jack Mintz, neutrality currently justifies an inclusion rate of about two-thirds, compared to the existing three-quarters. In other words, capital gains are now taxed more highly than are dividends. If personal and corporate rates decline in the future, neutrality could soon justify a 50% inclusion rate.

The tax treatment of RRSP contributions is another way in which the government encourages savings. These vehicles are tied to savings for retirement, and the arguments for or against certain contribution limits is based on assessments of reasonable levels of tax-assisted retirement income. The Committee notes that registered savings plans need not exist solely for the purposes of protecting retirement income. (Indeed, the federal government now permits a separate registered plan for education, although with fewer tax advantages than the RRSP but now eligible for a 20% federal grant, and permits RRSPs to fund home purchases and lifelong learning, under certain circumstances. Furthermore, a federal task force has recently recommended the use of RRSP funds to finance youth businesses.) If the economy benefits from increasing the savings rate of Canadians, a rate that has plummeted during this decade, does it matter for what purpose that saving is undertaken? The RRSP is already becoming a savings vehicle for more than just retirement.

Many credit union members either do not have employer pension plans or their plans will not provide adequate funds for retirement.

Credit Union Central of Canada

Two broad options are open to the government. On the one hand it could apply a different and lower marginal tax rate to savings income or it could use a vehicle like the RRSP, which defers taxes on savings. If the government were not prepared to take the first course of action, then it would be advantageous to increase RRSP contribution limits beyond those that are currently in place.

The 20% Foreign Property Rule

The Committee has argued in the past that the government should increase the amount of foreign property that Canadians may hold in RRSPs. Currently they are limited to 20%. As Canada represents only about 2.5% of the world capital market, this restriction limits the ability of Canadians to diversify their retirement portfolios. It is widely recognized that this restriction reduces the returns that Canadians can earn on their savings. It also increases the risk that they face because the Canadian economy is not as diversified as the global economy, in general, or the American economy, in particular. As we have said before, the provision that "protects" Canadians from investing in risky emerging markets is the same provision that prevents them from investing in the relatively stable American market, one which has provided a better rate of return than our own capital market.

Canadians clearly have an appetite for more foreign content in their registered savings plans. Recently, a new form of mutual fund has emerged, designed specifically to increase the exposure of Canadians to foreign risk, to enable them to participate more in foreign returns, while at the same time meeting the conditions of the *Income Tax Act*. These mutual funds use derivatives in order to provide a return based on a portfolio of foreign securities.

A recent court ruling has confirmed that these mutual funds are indeed eligible for RRSP investments. Canadian financial institutions are now widely offering and publicizing these funds, often linked to the performance of some particular index or exchange, such as the NASDAQ, S&P 500, etc.

In addition to the arguments that the Committee has made in the past, namely that an increased foreign content would not harm Canadian capital markets and that it would enhance the returns to Canadians, we now make a more practical observation. We believe that Canadians should be allowed to do directly what they are now allowed to do indirectly. The use of derivative products in these mutual funds comes with a price. It is more costly to earn returns based on foreign securities this way than it would be if Canadians could buy those securities directly. Indeed, the Investment Funds Institute of Canada (IFIC) indicates that the funds that indirectly allow exposure to foreign risk add 40 to 80 basis points to the cost of the underlying funds, amounts that would be better reflected in the returns to savers.

Many investment dealers are setting up a new type of mutual fund, the 'clone' fund, that works around the foreign property rule and allows an investor nearly unlimited property.

Credit Union Central of Canada

These mutual funds would probably not exist if a significant proportion of Canadians did not wish to exceed the 20% foreign content rule in their RRSPs. These funds are simply a market response to an unwanted and unneeded regulatory constraint. Their existence is evidence of a public policy that is not supported by many Canadians who are saving for their retirement. **Hence, we repeat our recommendation of previous years. The government should increase the allowable foreign property content of RRSPs and other tax assisted retirement vehicles to 30% over a five-year period.**

We believe that with a 30% rule, virtually all of the efficiency and diversification needs of Canadian savers would be met. We should also point out that these "clone funds" enable individuals with RRSPs to effectively circumvent the 20% rule, but Canadians who have most of their retirement savings in RPPs cannot do the same thing.

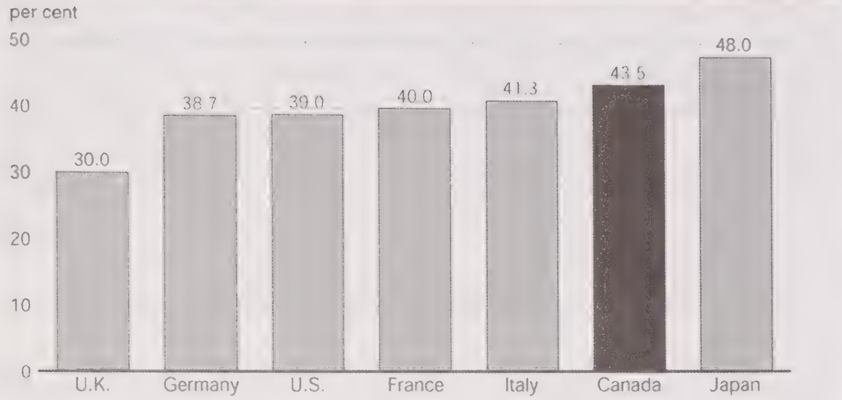
Corporate Taxation

The Mintz committee made a variety of recommendations to improve the system of taxation applied to business income. That committee was instructed to consider the issue of corporate tax reform in such a way that changes would be revenue neutral.

The business sector today pays about 30% of all taxes collected by all levels of government in Canada. This amounted to $84 billion in 1995. The major types of taxes are payroll taxes (27% of all business taxes), corporate income taxes (22%), property taxes (18%), sales taxes (8%), capital taxes (5%), and fuel excise taxes (5%). The federal government employs 3 corporate income tax rates (which include the impact of the corporate surtax): 29.12% in general, 22.12% for manufacturing and processing businesses and 13.12% for Canadian-controlled private businesses. The federal government also applies a capital tax of 0.225% on capital in excess of $10 million which is reduced by the amount of corporate surtax paid. This is known as the Large Corporations Tax (LCT). Deposit taking institutions pay an additional capital tax at a rate of 1.25%. And large deposit-taking institutions are also subject to a temporary surtax (Part VI capital surtax). There is also a graduated surtax for insurers. The federal government collects about $1.5 billion from the LCT. In 1996, regulated financial institutions paid about $350 million in federal capital tax.

According to the Mintz report, neutrality should be a key feature of any tax system, although there should also be some recognition for special situations. The Canadian corporate tax system exhibits a large variation in tax rates, due to different statutory rates and different tax expenditures that apply to the various sectors of the economy. All large corporations pay an effective federal rate of 17%, on average. This ranges from a high of 26% for deposit taking institutions and public utilities, to a low of 6% for mining, and 12% for agriculture, forestry and fishing. Indeed, those sectors of the economy that are the fastest growing and represent the new economy are the ones subject to the highest level of taxation.

Recently announced general corporate tax rates [1] in G7 countries



[1] The Canadian tax rate of 43.5 per cent includes the 29.1-per-cent federal tax rate (28 per cent plus the 4-per-cent surtax) plus the average provincial tax rate of 14.4 per cent.
Sources: *KPMG Corporate Tax Rate Survey;* Ernst & Young International Tax Services; OECD Tax Database; Department of Finance calculations.

Why is it important to reform and reduce business taxes?

- *Taxes make business investment less profitable because they reduce the return from investments and increase the cost of acquiring and holding capital. These taxes can have a significant negative impact on investment. This lowers the stock of capital and results in an older vintage of capital, with less modern technology embedded within it, lowering productivity, real wages, economic growth and living standards.*
- *Business taxes tend to favour debt financing over equity financing, increasing the risk of bankruptcy and shifting the risk to the financial sector.*
- *The corporate tax system creates economic inefficiency by distorting business decisions, causing them to direct investment activities to areas that are not most profitable. Businesses are sometimes encouraged to hold the wrong types of assets or to invest in the wrong sectors of the economy. Sometimes they are encouraged to organize themselves inefficiently. These distortions can be substantial for incremental changes in tax rates, reducing the financial cost to government of tax reduction, as a result.*
- *Capital income tends to be doubly taxed because the personal income tax system does not fully take into account corporate taxes paid on corporate profits.*
- *The greater the tax differential between Canada and other countries, the less likely multinational firms are to report profits in Canada and the more likely are they to incur costs here. This 'tax base' effect lowers the financial loss to government of rate reductions as it results in some repatriation of profits.*
- *The greater the tax differential between Canada and other countries, the more likely is investment to be located outside of Canada. Canada is losing its share of foreign direct investment, whether measured on a global basis or only a North American basis. As we reside in a very open economy, this differential also induces Canadian firms to invest outside of Canada.*
- *The less investment in Canada, the less opportunities for skilled workers and the more likely they would be to leave. This is the indirect tax effect on the Brain Drain.*
- *Of all G-7 countries, Canada imposes the highest tax rate on those sectors of the economy that present the greatest potential for growth, namely service industries and knowledge-based firms.*
- *Ireland collects more corporate tax than Canada, when measured as a percentage of GDP, even though its corporate tax rates are less than one-third those in Canada!*

Comparing Canadian corporate taxes to other G-7 countries shows that Canada is in the middle of the pack when it comes to manufacturing, with a tax rate on marginal investments that is only slightly higher than that found in United States. However, as the Mintz committee noted, service industries in Canada face taxes that are substantially higher than those in the United States and nearer the top of the G-7 range. It is these service industries that are often the growing part of the Canadian economy.

The *Economic and Fiscal Update* highlighted this characteristic of the Canadian corporate tax system. According to the Update:

> Since 1996, all G-7 countries other than Canada and the United States have either reduced or are planning to reduce their general corporate tax rate. Other countries are also reducing their tax rates, including Switzerland (from 35.5 percent to 25 percent) and Australia (from 36 percent to 30 percent).
>
> Unlike most other countries, Canada varies its tax rate on corporations depending on both their size and activity. Canada has one of the lowest tax rates for small business (effective federal-provincial tax rate of 21 percent), has comparable rates for the manufacturing and processing sector (effective tax rate of 35 percent), but imposes the full general rate of 43.5 percent on most other sectors, including the service and knowledge-based industries.

There are several areas of recommendations that merit attention by the government for tax relief and reform. While this Committee has heard evidence that any tax relief and reform should be concentrated initially in the area of personal income taxes, the business side should not be ignored. Moreover, since business taxes do not generate the large revenues of the personal income tax, valuable reform can still be undertaken without consuming a large part of the fiscal dividend.

According to the Mintz report, the top areas for reform of the business tax system are to equalize the effective tax rates imposed on the various sectors of the economy, to eliminate the corporate surtaxes and to reduce the extent of capital taxation. At the same time, capital cost allowances should be adjusted to better reflect true economic depreciation. This would require that some categories be subject to slower depreciation rates and some to faster rates of depreciation.

By taxing different sectors of the economy at different rates, the government is effectively providing incentives for some types of economic activity and disincentives for others. The effective tax rate applied to the highest-taxed sectors is almost five times that of the lowest-tax sector, and the highest-taxed industries pay almost two-thirds more in tax than the corporate average, according to the testimony of the Canadian Bankers Association. While equalizing statutory tax rates would be a step in the right direction, it is not sufficient, as other features of the tax system exacerbate this non-neutrality.

Additional evidence was provided by the Canadian Life and Health Insurance Association Inc. (CLHIA). According to their submission, the financial services sector accounts for 20% of federal corporate income tax yet accounts for only 16% of profits. From 1987 to 1997, taxes paid by the life and health insurance industry grew by 15% per year whereas profits grew by only 6% per year.

> *Another major challenge the world industry faces is that it must generate a better return on capital. This is essential to permit the ongoing capital investment in facilities and new technologies that will allow Canadian steel workers to produce higher and higher value for the customer and the Canadian economy.*
>
> **Canadian Steel Producers Association**

What is ironic about this is the fact that the highest effective tax rates are applied to the service sector and that part of the economy that is generally viewed as the "new economy." These are the areas of fastest economic growth and greatest potential growth. They also present the best prospects for enhancing productivity and living standards in Canada. The new economy constitutes a larger proportion of the American economy than it does in Canada. The tax system might play a part in this.

As with the personal income tax, the corporate income tax also contains a surtax that was instituted to help fight the deficit. As the Committee has argued in the past, specific deficit reduction measures should be eliminated now that the deficit has disappeared. The total elimination of the corporate surtax would directly cost the federal government about $580 million per year. It is important to recall that the surtax has an impact on the Large Corporations Tax (LCT), with corporations being able to deduct LCT liabilities against their corporate surtax. (This has the effect of making the LCT something akin to a minimum tax for large corporations.) Should it be eliminated, corporations subject to the LCT should be able to deduct that tax liability from their CIT liabilities.

The corporate income tax essentially applies three different rates to corporate income. There is a general rate, a lower rate for manufacturing and processing and an even lower rate for small businesses. One way to help equalize the various rates is to lower the general rate. Each percentage point reduction in the rate costs the federal government approximately $270 million.

As the earlier quote from the *Economic and Fiscal Update* makes clear, our corporate tax system is not keeping pace with developments in the rest of the industrialized world, where corporate taxes are generally declining and where taxes paid by the service sector and new economy companies are lower than in Canada.

> *To reduce the competitive disadvantage to Canadian corporations in international markets, including truck transportation in North America, the general corporate tax rate should be reduced.*
>
> **Canadian Trucking Alliance**

Finally, it should be noted that of all the taxes imposed on business income, the corporate income tax accounts for approximately one-quarter. Indeed, the federal government has been increasing its reliance upon profit insensitive taxes over time. While this has helped to raise tax revenues during periods when corporate profits were low or even non-existent, it placed an ever-increasing burden on the business sector at times when it could least afford that burden. The small business community, represented by the Canadian Federation of Independent Business, has been a persistent and vocal critic of this tendency, because it has suffered disproportionately by this trend.

Not all of these profit insensitive taxes have originated with the federal government. Nevertheless past increases in EI premiums, CPP premiums,

capital taxes, and the like have helped to adversely increase the tax burden on businesses during periods of poor economic performance. In recent years, it is only EI premiums that have been declining. Nevertheless, the decline has been significant. From 4.3 cents per $100 of insurable earnings in 1994, the employer EI premium rate in 2000 will be 3.36 cents per $100 of insurable earnings. This represents a 22% decline in a six-year period, something that has not been seen with respect to any other tax. Moreover, it does not take into account the impact of the reduction in maximum insurable earnings or the premium holiday for new hires.

The Mintz report also addressed the issue of the $200,000 threshold for the small business tax rate. It recognized that the limit had not grown over time with inflation. Nevertheless, it did not support an increase in this threshold because the vast majority of small businesses have incomes well below the limit and because many of the small businesses with revenues in excess of that limit are in fact owned by wealthy individuals. It concluded that "a higher income threshold would not be consistent with the focus on assisting truly small businesses, which, as noted, do face high financing, compliance and other costs."[30] Repeating once again the message of the *Economic and Fiscal Update*, the tax rate imposed on small businesses in Canada is already very low by international standards.

The Mintz report also considered the role that capital taxes play in a system of business taxation. The federal government raises about $1.5 billion in capital taxes, one-third the amount raised nationally. One of the major problems with the capital taxes is the fact that the base upon which it is levied differs from province to province and is different again at the federal level. It recommended greater harmonization so as to reduce administration and compliance costs.

But there is much more. According to the Canadian Bankers Association:

> . . . Canada is now the only country to impose capital taxes after Germany abolished its tax in 1997. Germany's corporate tax rate will be falling to 35% in the year 2000, a significant drop from 1997 when the rate was as high is 57% on undistributed profits. In other examples, Denmark, Finland, Norway and Sweden's corporate tax rates and personal tax rates on interest and capital gains now vary between 25% and 30%. Italy has also lowered its corporate tax rates from 51% to 37%, with the elimination, in 1998, of its regional corporate taxes and some other smaller taxes on capital and payroll in favour of a new regional value-added tax . . . .Canada is at the bottom of the rankings in terms of tax competitiveness, according to a 1999 scoreboard compiled by IMD International, the executive management school based in Switzerland. At 3.8% of GDP, for instance, we collect more capital and property

30 Report of the Technical Committee on Business Taxation, p. 5.8.

taxes than any other government on the IMD scoreboard except Taiwan and Russia.

To be of significant benefit, tax reform must deliver direct-benefit dividends to investors providing capital resources, entities providing highly skilled and technical employment opportunities, and innovative entrepreneurs.

The Coal Association of Canada

The CBA highlighted capital and property taxes, as both of them are taxes on economic stocks rather than economic flows. As such, they tax the same assets year after year after year, whether or not they generate any profits. And even if they did generate profits, those profits would be taxed in their own right.

The Committee has argued earlier that tax relief should be focused on the personal income tax system. Corporate taxation should play a less important role. The issue of tax relief and reform is not one in which there is a dichotomy between relief for individuals and relief for corporations. Reduced business taxes do not just benefit corporations or the wealthy, they benefit individuals as well.

Taxes on capital or the returns from capital tend to reduce the returns from investment and hence reduce the amount of investment that is undertaken. This means a smaller stock of capital as well as an older stock of capital. Both of these factors will lead to lower productivity and hence lower real wages. Moreover, as this lower productivity would make Canadian firms less competitive internationally, it could also lead to lower employment in Canada. Lower real wages and lower employment both adversely affect individual Canadians. Thus Canadian households have as much of a stake in an efficient and competitive system of business taxation as do Canadian corporations.

Tax anomalies that compromise the productivity and international competitiveness of Canadian goods and services need to be eliminated.

Railway Association of Canada

The thrust of the Mintz committee recommendations is to make the Canadian system of business taxation internationally competitive through a reduction of tax rates to international norms. It aims to reduce the distortions caused by business taxation, subjecting all sectors of the economy to tax rates that are more equal. Finally, it hopes to apply the principles of benefit taxation to the system, so that when profit insensitive taxes are used, they are imposed on sectors of the economy that derive benefits from government programs.

The Committee would like to repeat another important rationale for an internationally competitive corporate tax system, as outlined in the Mintz report. We all know that international trade is growing rapidly. Less well known is the fact that a large part of this trade is inter-firm trade - it is one arm of a multinational firm trading with another arm of a multinational. Production in such firms might take place in one country, financing acquired in a second country and head office functions and decisions in a third. In such a world, it is quite easy for firms to report profits in low-tax jurisdictions while recording costs in high-tax jurisdictions. If our corporate taxes are high by international standards we may be unnecessarily losing tax revenues as a result, revenues that greater enforcement and anti-avoidance rules cannot necessarily recoup. This is simply a reflection of the fact that profits can easily be shifted from country to country.

Not only would lower taxes improve economic efficiency, it could lead to a repatriation of recorded profits to Canada. A perfect example relates to Canada's generous tax treatment of R&D expenditures and its relatively high

corporate tax rates. These two features encourage businesses to conduct R&D in Canada so as to benefit from the tax breaks but subsequently encourage the acquired knowledge to be used outside of Canada so as to avoid our high tax rates on profits.

This is extremely important, and Ireland is a very good case in point. According to Professor Jack Mintz,[31]

> . . . Ireland, with an average corporate income tax rate that is less than one-third the rate in Canada, collects more corporate tax revenue as a percentage of gross domestic product (GDP) than Canada. In other words, in Ireland corporate profits as a percentage of GDP are at least three times the level in Canada.

The Irish experiment demonstrates that tax cuts and an internationally competitive tax system does not mean a race to the bottom, as many opponents to tax cuts allege. Instead, it appears to lead to a race to the top. Table 1 in our chapter on productivity demonstrates precisely this point. Of OECD countries, Ireland enjoyed the highest growth rates in the 1990s, greatly outpacing Canadian growth over the same period.

Professor Mintz made several additional observations about the international competitiveness of the Canadian corporate tax system. He notes that corporate tax rates have been declining in many countries in the past few years, but not in Canada, so that by the year 2000, Canada is likely to be at the top of G-7 in corporate taxation.[32] It will have the second-highest general corporate tax, surpassed only by Japan and the highest tax burden in the G-7 imposed on capital in service industries.

There is a clear international trend to lower business tax rates. Denmark, France, Germany, Ireland, Italy, and many others have lowered business tax rates in the past two and one-half years. Canada has not.

The need to have an internationally competitive business tax regime will only grow in importance. As we note in our chapter on the new economy, electronic commerce is accelerating the trend towards the separation of all parts of the processes by which firms respond to the needs of their customers. Management, research, parts production and supply, sales and distribution are all being segregated and located where they can be undertaken most efficiently. They can be located thousands of miles apart as new communications technologies effectively eliminate distance as a consideration. In other words, every component of the business process is becoming increasingly mobile and firms which are nominally located in Canada can easily move the bulk of their activities offshore. Tax considerations can play an important part in such decisions.

---

31 Jack M. Mintz, *Why Canada Must Undertake Business Tax Reform Soon*, C.D. Howe Institute, November 4, 1999, p. 5.

32 Mintz, (1999).

The National Children's Alliance recognizes that a balanced approach is critical. Children and their families require programs in income security, such as the National Child Benefit and tax reform measures; social and community support services, such as early childhood care and education; youth services and a child welfare system; co-ordinated national research and monitoring systems; and capacity-building initiatives for the voluntary sector.

National Children's Alliance

Finally, it is useful to highlight another point raised by Professor Mintz. The report of the technical committee remarked on the negative effects of a non-neutral tax system. Canadian governments do this deliberately by imposing different statutory tax rates by activity and size of firm. It is becoming increasingly difficult to define categories of activity and limit profit transfers from highly-taxed to little taxed activities. Other countries are moving from such multi-tiered systems to standardized and simpler systems.

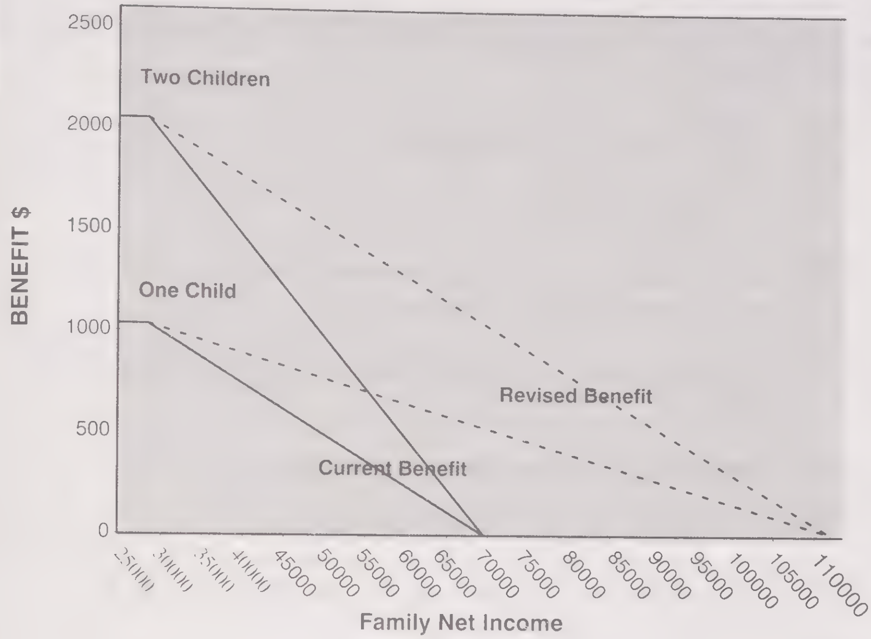
Social Benefits

As noted earlier, social benefits have an impact on effective marginal tax rates because of the benefit reduction rates that are applied to the social benefits, so as to target lower-income families. In order to limit the cost of these programs, benefits gradually decline with income. In some cases, however, the benefit reduction rates can be quite substantial. This is particularly true when taxpayers face the reduction of more than one social benefit.

A more comprehensive reform, however, would be to make the Canada Child Tax Benefit a universal one, eliminating benefit reductions altogether. According to testimony received by the subcommittee last spring, making this benefit universal would cost the federal government approximately $2.8 billion per year. An intermediate step would be a significant reduction of the phase-out rate now applied to the CCTB. This initiative would increase the benefit to middle-income families and extend the coverage of the program to more children, improving the degree of horizontal equity of the tax/transfer system.

Chart 2 demonstrates the impact on families of a halving of the benefit phase-out rate of the CCTB. It substantially increases the population of eligible families for the benefit.

Chart 2: Canada Child Tax Benefit: Revised Phase-out Rate Based on the Year 2000



The Committee's Tax and EI Premium Reduction Plan

In line with the above arguments, the Committee proposes that the focus of fiscal policy over the next five years should be tax reduction and reform. The Committee's Tax and EI Premium Reduction Plan would amount to $3 billion in incremental tax cuts for the first four years and $4 billion cut in the fifth year.

According to these projections, the federal government surplus should grow from about $9.5 billion next year to about $30 billion in 2004-05. With a $3 billion contingency reserve, and a growing measure of economic prudence, the discretionary surplus of the government, i.e. the amount against which it may apply new initiatives would grow from about $5.5 billion next year to $23 billion in 2004-05.

Some people would see a conflict between tax reductions and social spending. I believe that this is to some extent a false dichotomy. Many of Canada's most effect social programs are delivered through the tax system and many social program expenditures in turn support greater productivity and job creation.

Insurance Bureau of Canada

As long as the economy continues at its present pace, our proposal would see tax reduction and debt reduction as the focal point of future budgets. Automatic debt reduction due to the contingency reserve would account for 16% of the projected surplus over the next 5 years. The Committee's tax reduction plan would account for another 47% of the surplus. These 2 elements would account for 63% of the projected surplus.

The Committee's plan concentrates on personal income tax reductions. There should be a healthy mix of tax reduction and reform, so business tax cuts should also be part of the package. We believe that greater weight should be given to tax reduction and debt reduction than to program spending. The

Committee believes that the following elements must be dealt with upon maturity of the five-year plan. **On the personal side, the Committee recommends that the following elements should be included in a five-year package of tax reduction. At maturity, the following should be accomplished:**

- **A 15% increase in basic amounts.**
- **A reduction in the 26% middle tax rate to 23%.**
- **A substantial reduction in the benefit reduction rate applied to the Canada Child Tax Benefit.**
- **A 15% increase in the thresholds at which tax brackets take effect.**
- **A reduction in EI Premiums by 40 cents.**
- **An increase in RRSP limits by $2,000, over 5 years.**
- **A reduction in the capital gains inclusion rate to 65%.**
- **The elimination of the 5% surtax.**

The Committee believes that basic amounts and tax rate thresholds should be increased by 15% by the fifth year of the Committee's plan. This protects against inflation even at the upper reaches of the Bank of Canada's inflation target range. Given the past success of the Bank of Canada, the Committee believes this target is appropriate.

The Committee is convinced that capital gains are taxed in Canada at a rate which is too high and which is uncompetitive with the American system of capital gains taxation. We believe that the capital gains tax is a significant barrier to the financing of SMEs, start-up companies, and knowledge-based firms. We also understand that, for many Canadians, capital gains are now taxed at a higher rate than dividends. This non-neutrality could be largely offset by an inclusion rate of about 65%.

On the business side, the Committee recommends that the following elements should be included in a five-year package of tax reduction. At maturity, the following should be accomplished:

- **A reduction in the general corporate income tax rate by 5 percentage points.**
- **A reduction in EI Premiums.**
- **A reduction in the capital gains inclusion rate.**
- **A reduction in capital taxes, in conjunction with provincial reductions, while at the same time harmonizing the tax base.**

What the Committee Hopes to Achieve

In making these proposals, the Committee is driven by a desire to improve the tax system, while at the same time offering tax relief where we believe it is most needed and where it will have the greatest beneficial impact on the economy. As noted earlier, one goal of the Committee is to directly increase the disposable income of Canadian families. It is important therefore that the bulk of tax relief be targeted directly at individuals and families.

At the same time, we believe that it is important that we get the tax system right. It should be consistent with our notion of fairness, but at the same time, it should not discourage economic behaviour that is beneficial to the entire economy. It should not penalize work effort. It should not discourage saving. And it should not discourage risk taking and entrepreneurship. Tax relief and reform should be driven by a desire to grow the economic pie.

This issue was recently addressed by Pierre Fortin in his CD Howe lecture when he asked the question "How can Canadians' living standards be put back on the growth track?"

His response was as follows:

> The broad answer provided by the large research literature on taxation is to adapt the level and structure of taxation so as to protect work incentives, encourage savings and investment, support technological innovation, and reinforce Canada's competitive position as a place to work and to do business. This answer is neither new nor easy to implement, but it has the great advantage of being the correct one.[33]

Some of his practical proposals were to lower marginal tax rates for all taxpayers but primarily for middle and upper-income taxpayers, to lower taxes on savings and investment but not on consumption, to convert the personal tax into more of a personal consumption tax by increasing savings deductions, by reducing corporate tax rates, and by not targeting reductions in EI premiums, but even increasing reliance upon payroll taxes. This latter conclusion is based on the widespread evidence that payroll taxes tend to have their greatest long-term impact on reducing wages and not reducing employment.

The Committee believes that its own Tax and EI Premium Reduction Plan is largely consistent with this advice.

33 Pierre Fortin (1999) p. 64.

Our plan is also consistent with the recent statement of the International Monetary Fund.[34] That report stated that, while there is some value to moderate spending growth, debt reduction and tax reform should constitute the government's clear priorities because they would provide greater long-term benefits than would increased spending. This is due to the considerable efficiency gains that could be generated by such tax reform. The specific personal tax measures proposed by the IMF include: a reduction in the middle tax rate, higher tax bracket thresholds and a reduction in the phase-out rate associated with the Canada Child Tax Benefit.

The Committee's Tax and EI Premium Reduction Plan sets out some options that the Minister of Finance could consider when preparing his next budget. The government can set its own priorities with respect to particular items in our package. The Committee believes, however, that all of these elements should be addressed.

34 International Monetary Fund, "2000 Article IV Consultation with Canada," November 16, 1999.

WHAT THE COMMITTEE HOPES TO ACHIEVE	
RECOMMENDATION	**GOAL**
▶ Increase basic and spousal amounts by 15%. ▶ At maturity, the basic personal amount would be $8,200 and the spousal amount would be $6,965. ▶ At maturity this would be worth $3 billion to Canadians in reduced federal taxes.	▶ Remove low-income taxpayers from the tax rolls. ▶ A 15% increase in basic amounts would remove over 500,000 lower-income Canadians from the tax rolls. ▶ Lower the welfare wall and increase attachment to the workforce.
▶ Reduce middle tax rate by 3 percentage points to 23%, over 5 years. ▶ At maturity, this would reduce federal taxes paid by $3.15 billion.	▶ Lower income taxes paid by middle-income families. ▶ Restore vertical equity to the tax system for middle-income families. ▶ Lower marginal tax rates. ▶ Promote work effort and savings.
▶ Lower, over a five-year period, CCTB phase-out rate by one-half, to 2.5% for families with more than one child and to 1.25% for families with one child. ▶ At maturity, this would enhance benefits by $1.2 billion.	▶ Help middle-income families with children. ▶ Extend client population of the program. ▶ Lower marginal tax rates.
▶ Increase tax rate thresholds by 15%. ▶ At maturity, the middle-rate threshold would be approximately $34,000 and the top-rate threshold would be $68,050. ▶ At maturity this would reduce federal taxes paid by $2.9 billion.	▶ Compensate for inflation. ▶ Reduce marginal tax rates. ▶ Reduce one-earner/two-earner tax disparity.

▶ Reduce EI premiums by 40 cents over 4 years. ▶ At maturity, this would reduce federal revenues by $3.1 billion.	▶ Reduces marginal tax rates. ▶ Reduces amount of profit insensitive taxes faced by businesses.
▶ Increase RRSP limits by a total of $2,000, over a five-year period. ▶ At maturity, this would reduce federal taxes paid by $400 million.	▶ Enhance savings.
▶ Eliminate 5% surtax by gradually increasing the threshold at which it takes effect. ▶ At maturity, this would reduce federal taxes paid by $650 million.	▶ Remove deficit reduction tax. ▶ Reduce marginal tax rates. ▶ Stimulate savings and investment. ▶ Enhance productivity.
▶ Lower inclusion rate for capital gains from 75% to 65%, starting in taxation year 2000. ▶ This would reduce federal taxes paid by $375 million.	▶ Promote savings, investment and risk taking. ▶ Enhance productivity. ▶ Increase venture capital stock for SMEs.
▶ Lower general corporate rate by 5 percentage points over five years. ▶ At maturity, this would reduce federal taxes paid by $1.35 billion.	▶ Restore tax neutrality. ▶ Greater international competitiveness. ▶ Stop penalizing new economy firms.
▶ Increase foreign content from 20% to 30%.	▶ Increase returns to retirement savings and reduce risk.
▶ Lower inclusion rate for donations of appreciable property.	▶ Promote charitable giving.
▶ Consider expanding eligible properties for lower-inclusion rate.	▶ Help protect heritage properties and ecologically sensitive lands.
▶ Initiate profound reform of business tax system.	▶ Make Canada internationally competitive. ▶ Enhance productivity.
▶ Work with provinces to establish common capital tax base.	▶ Reduce compliance costs.

1. Increased personal amounts

The Committee noted in 1997 that the partial indexation of the tax system added 840,000 low-income families to the tax rolls as of 1995. This trend has continued. The 1998 and 1999 budgets increased the personal amounts and, as a result, removed 600,000 low-income Canadians from the tax rolls. These initial steps have undone much of the adverse results of more than a decade of partial indexation. They have not completed the job, however.

The Committee believes that it is appropriate to do more than just reverse the effects of partial indexation in the past.

Increased basic amounts provide tax relief to all taxpayers, but the greatest proportionate amount is with lower and middle income Canadians. It takes lower-income families off the tax rolls and helps to reduce the "welfare wall."

2. The middle tax rate

The middle tax rate was originally intended to be 23% once the GST was in place. This was never done.

At present the rate of tax applied to the middle bracket is only one-tenth less than the rate applied to the top bracket. It is only one-sixth less than the rate applied to the very richest of Canadians, namely those who also face the high-income surtax, a surtax which we recommend be eliminated. Thus we believe it is not greatly inaccurate to view the two top brackets almost as one.

In effect, then, the tax system is more flat than it is progressive for income in excess of $30,000. The Committee finds it difficult to believe that such a tax system is acceptable to Canadians and that it would receive widespread support if it were to be proposed today. We also find it difficult to believe that $30,000 is the threshold at which we define high incomes. Yet in effect that is what the current personal income tax does.

When a taxpayer enters the middle tax bracket, the marginal tax rate jumps from 17% to 26%. In other words, it jumps by more than one-half. And this does not take into account the effects of social benefit phase-out rates.

While the Canadian personal income tax system is generally thought to be uncompetitive with its American counterpart, the conventional wisdom is that our system is uncompetitive for those earning high incomes. While there is a certain amount of truth to this, many would be surprised to find that the real problem rests with taxpayers at middle-income levels. Moreover, it is in this range that many families face the benefit reduction rate associated with the Canada Child Tax Benefit, which is itself, a marginal tax.

The Committee believes that Canadians and the Canadian economy would benefit greatly from a reduction in this middle tax rate to a level that is more appropriate. Average tax rates are too high and marginal tax rates are too high.

In addition, the Committee believes that the reduction of the middle tax rate will help to reduce some of the perceived inequity that now exists between

single-income and dual-income families with the same total income. This perceived inequity is of most concern for middle-income families. While the question of the appropriate policy towards single and dual-earner families is a complex one, a reduction in the middle tax rate would play an important role in addressing this matter.

By substantially reducing the middle tax rate to 23%, in conjunction with our other recommendations, the federal personal income tax system would have four very distinct tax rates: a 0% rate due to the basic amounts, a 17% rate, a 23% rate and a 29% rate. It would lower marginal tax rates for middle income families, who currently face high tax rates. It would alleviate some of the disparity between single and dual-income families and it would foster greater workforce attachment.

The personal income tax system should be fully indexed to inflation in order to eliminate the automatic, hidden tax hike caused each year by tax bracket creep.

Canadian Federation of Independent Business

3. Tax bracket thresholds

The partial de-indexation of the tax system not only causes low income Canadians to be put on the tax rolls, it also pushes Canadians into higher tax brackets even though their real incomes might not have increased.

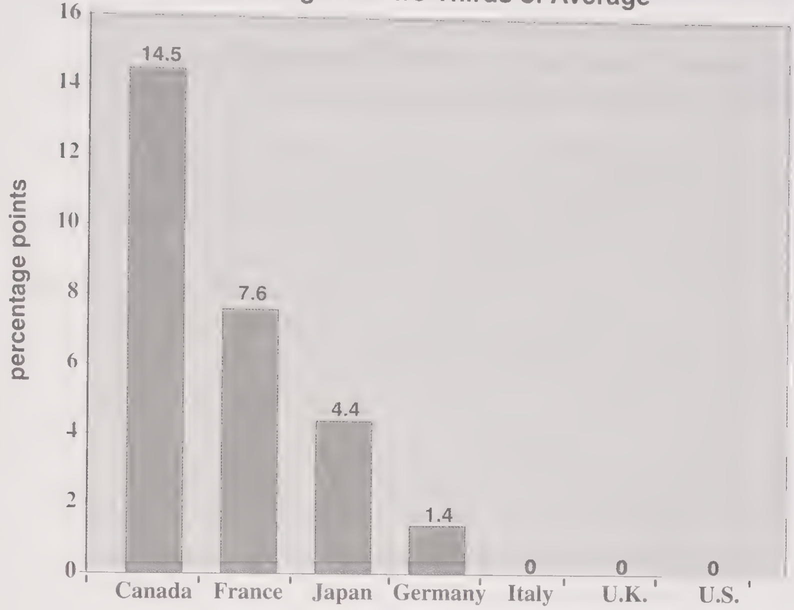
We believe that tax thresholds should be increased by the same rate as any increase in the basic amounts. This is a deliberate choice on our part. The personal income tax system has three tax brackets: 17%, 26%, and 29%. The basic credit and the spousal credit have the effect of creating another tax bracket, namely a 0% bracket. At present, this zero percent bracket applies to all income up to about $7,100 in the case of a single taxpayer, and $13,100 in the case of a larger family with one earner. Income above those amounts, and up to $30,000, is taxed at a federal rate of 17%.

If the basic amounts grow faster than the threshold for the middle rate , the amount of income that is taxed at 17% is reduced. A taxpayer whose income increases by only $16,900[35] will see his/her marginal rate increase from 0% to 26% which is virtually the top rate. In other words, all of the progressivity attached to the federal personal income tax system is contained within a very narrow income range. Indeed, according to the OECD, the marginal tax rate for an individual grows from 31.4% to 45.9% as that persons income grows from two-thirds of the average industrial wage to the average industrial wage.

[35] This example applies to a two-person family, for example a single mother, with only one income earner. For an individual, the income range over which the marginal tax rate increases from 0% to 26% is $22,900. Even that, is a small range of income over which the taxpayer moves from the lowest to practically the highest marginal rate of tax.

This characteristic is unique to Canada and is presented in Chart 3.

Chart 3: Increase in Effective Marginal Tax Rate
Production Wage vs. Two-Thirds of Average



The Committee believes that this is not a fair or effective design that should characterize our personal income tax. The progression from the lowest to highest tax rate should be more gradual, and our recommendations with respect to tax brackets and the middle tax rate are consistent with this.

4. EI premiums

The federal government has announced a 15 cent reduction in EI premiums for the year 2000. It continues past trends.

To date, EI premiums have enjoyed a disproportionate share of federal tax cuts. In 1995 the premium rate was set at the $3.00 per $100 of insurable earnings, despite the fact that the formula required a rate of $3.30. In 1996, the rate was reduced by a further 5 cents at a cost of $350 million. In 1997, the rate was reduced by a further 5 cents. Maximum insurable earnings were reduced, causing a $900 million reduction in premiums. Premium relief was offered to small business in 1995 and again in 1997 and 1998. Last year the rate was reduced by 15 cents at a cost of $1.5 billion and it was reduced by a further 15 cents for the year 2000. Nevertheless, the rate is still above the break even rate and the Committee believes it should continue to be reduced to that level.

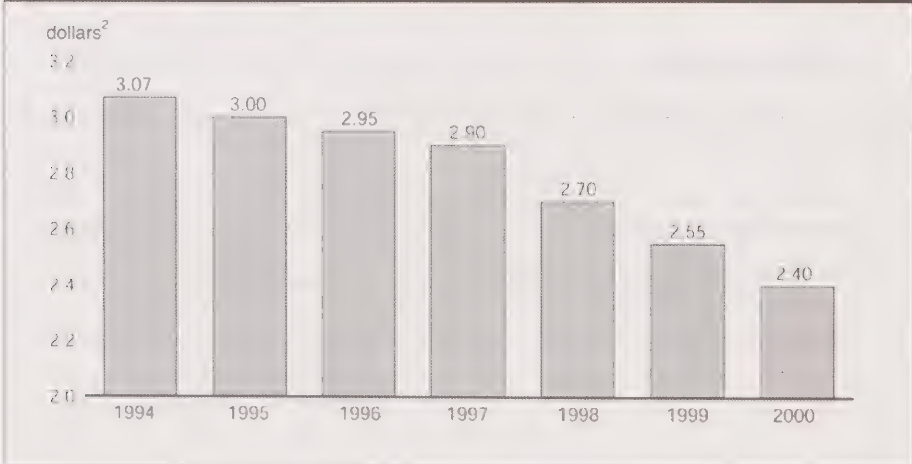
Unfortunately, the debate about EI premiums has become mired within the context of the EI account and its accumulated surplus. Payroll taxes in Canada are low by international standards and are even lower than those found in United States. The economic evidence suggests that payroll taxes are relatively benign towards the economy in the long run, in contrast to most other forms of taxation.

Indeed, it is the view of this Committee that the debate about EI premiums is distorted and needlessly restricted because it is confined to the context of the EI Account, both annually and cumulatively. We believe that an effective and efficient system of income support for those who are temporarily unemployed is vital to a well-functioning economy. The federal government should maintain such a program and ensure that it is indeed efficient and effective. We believe that such a commitment has been made by the federal government.

The Committee would like to make the following observations on the recent history of the EI Account. In 1986, a long-standing reservation by the Auditor General of Canada on the federal government's financial statements was addressed. Upon his recommendation, the transactions of a number of specified purpose accounts, including the Unemployment Insurance Account (now known as the Employment Insurance Account) were consolidated as part of budgetary revenues and expenditures.

The rationale for consolidating these specified purpose accounts was that the government was ultimately responsible for the activities of these programs, both in terms of policy parameters and the funding of deficits. Under the EI program, the government determines the eligibility criteria, the amount of benefit and the period of time the recipient is eligible to receive benefits. The Commission sets premium rates within guidelines set by government legislation — the *Employment Insurance Act*. If the government does not accept the Commission's rate, it must set a new rate through legislation.

Employee EI premium rates[1]



[1] Employers' EI premium rates are 1.4 times the employee rate.
[2] Per $100 of insurable earnings up to the maximum ($39,000 for the year 2000).

With this consolidation, the net annual balance between EI premium revenues and program costs directly affected the government's budgetary balance. When EI program costs exceed premium revenues, the federal government's fiscal position worsens by a corresponding amount. When EI premium revenues exceed program costs, the federal government's fiscal position improves by a corresponding amount.

Under current legislation, the EI Act requires that the Canada Employment and Insurance Commission (the Commission) set premium rates at levels that will cover program costs while keeping rates relatively stable over the business cycle - the cyclical break even rate. This involves not only a "look forward" process in assessing the level of revenues sufficient to cover program costs over a business cycle, but also a "look back" process by taking into consideration the level of any past excesses or shortfalls of revenues relative to program costs.

At the end of 1998-99, there was a cumulative surplus in the EI Account of $21 billion. This cumulative balance is higher than the level that the Chief Actuary of Human Resources Development Canada considers sufficient for the purposes of the EI Act. This surplus will continue to grow as long as revenues exceed program costs. Even if premium rates were set to just cover program costs over a business cycle, this surplus could still be expected to grow as interest is credited to the account, based on the level of the current surplus.

As long as the "look back" provision is in place, setting of EI premium rates within the current legislative requirements of the EI Act will cause serious disruptions to the overall management of the federal government's budget. Premium rates well below current levels would be required. In the near term, due to the crediting of interest, premiums would have to be set below the level required to finance program costs. As such, the operation of the EI program would have a serious negative impact on the government's budgetary balance. The EI rates should be set on the basis of the levels of revenues needed to cover program costs over a business cycle looking forward and not take into account the level of the cumulative surplus or deficit, nor any interest associated with that cumulative position.

This raises the issue of the relevancy of the EI Account. The EI Account is a bookkeeping entry only, to record activities to date for purposes of the "look back" aspect of current rate setting procedures. Setting rates on a going forward basis would eliminate the need to address the historical balance between premiums and cost. Furthermore, as the Auditor General noted in his observation to re-examine the need and usefulness of the Debt Servicing and Reduction Account (DSRA), "all receipts of money by the Government must be deposited into the Consolidated Revenue Fund (CRF) and all disbursements of money may only be withdrawn from the CRF with the approval of Parliament." The same observation applies to the EI Account. In effect, there is no separate account to which EI premiums are deposited or from which EI benefits are paid out. There is no accumulated surplus of $21 billion sitting in a separate account. The Auditor General's comments on the DSRA would apply equally to the EI Account. There would no longer be any need to prepare separate EI financial statements on the cumulative balances in an EI Account subject to audit.

Moving to a cyclical "break-even" EI premium rate immediately would result in a budgetary hit of over $3 billion per year. This would mean that in the short term, most of the available budgetary planning surplus would be

directed to a reduction in EI premium rates. This is not necessarily where the bulk of the planning surplus should be allocated. Canada's payroll taxes are below those in most other OECD countries. However, its income taxes, especially personal income taxes, are not. In the short term, there are more pressing uses for the planning surplus than a large decline in EI premium rates. Although the EI premium rates should reflect program costs over the business cycle, the pace at which this rate is achieved should reflect the need to address priorities in other areas.

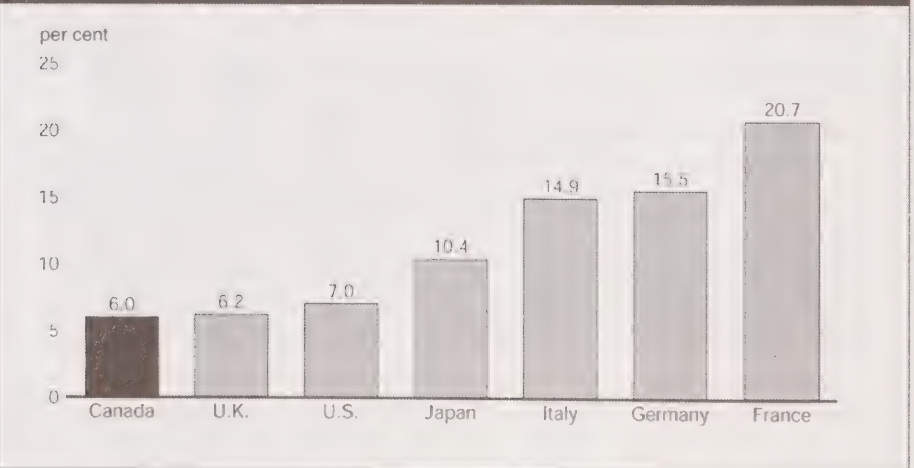
Therefore, the Committee believes that the federal government should consider revising the accounting practices related to Employment Insurance and the manner in which premiums are set. Specifically, it should contemplate: A rate setting procedure based on a forward-looking basis.

The Committee recommends that EI Premiums should continue to be reduced so as to gradually reach the break-even rate.

The Committee's concerns about the transparency of the EI Account are supported by recent statements of the Auditor General. During a recent appearance before the Public Accounts Committee, Mr. Desautels said:

> . . . the EI Account as such really is a tracking account - to keep track of how much money has come in and how much money has gone out. It is no more than that. We talk about a surplus of $21 billion, it simply says the government has collected $21 billion more than it has paid out on a cumulative basis. So there is no debt created to anybody by that operation.[36]

Payroll and social security taxes[1] as a percentage of GDP, G7 countries, 1996



[1] The Canadian figure includes federal and provincial taxes.
Source: *OECD Revenue Statistics, 1965-1997.*

[36] House of Commons Standing Committee on Public Accounts, *Proceedings*, November 16, 1999: 1605.

Mr. Desautels added:

> . . . the funds have in fact been mingled with the rest of government funds and have been used for other government purposes. The only way you can reverse that in future years is by incurring surpluses in the rest of the government operations to fund, let us say, a deficit in the EI operations.
>
> The benefits are really what the government decides the benefits ought to be. It [the EI legislation] basically says it is okay to accumulate a certain amount of surplus in a particular year because in the following year you may face harder economic conditions and you may incur a deficit in that particular year.[37]

This testimony by the Auditor General highlights the fact that the separate EI Account has led to a great deal of confusion in the minds of Canadians about the nature of the EI surplus. The same is true of another government tracking account, namely the Debt Servicing and Reduction Account. This account has no practical impact on government fiscal policy and has no effect on the size of government debt.

In the 1996-97 Public Accounts of Canada, the Auditor General wrote:[38]

> . . . in my view, given the fundamental concept of the CRF [Consolidated Revenue Fund] underlying the Government's accounting system, the Account is an internal mechanism that may not be necessary . . . .
>
> I would therefore suggest that the Government and Parliament may wish to re-examine the continuing need for and utility of the Debt Servicing and Reduction Account.

Consequently, the Committee recommends that the government eliminate the Debt Servicing and Reduction Account and treat GST revenues as all other revenues.

5. The 5% surtax

The Committee recommended last year that this surtax be eliminated over time. We believe it should be gradually eliminated by increasing the threshold at which the tax takes effect. Consistent with our arguments in the past, we believe that with the elimination of the deficit, past tax measures designed to reduce the deficit should also go. While this measure benefits primarily those with higher incomes, the evidence suggests that this is a particularly bad tax from an efficiency point of view. While it might not be true that the efficiency costs associated with this tax are so high that they cause government revenues to fall, we do believe that they are sufficiently high that the surtax elimination will ultimately prove to have little revenue impact on Canadian governments.

---

37 Ibid. 1620.

38 Public Accounts of Canada 1996-97, p. 1-32 Financial Statements of the Government of Canada.

Canadians should not suffer the continued existence of an excessively burdensome tax simply because of potential public misperceptions that its elimination benefits only higher-income taxpayers.

The purpose of this reduction is to lower the marginal tax rate on the top income earners. It is this group that is most subject to the brain drain and who tend to be the suppliers of capital to new companies.

6. Capital gains inclusion rate

The Committee believes that the inclusion rate for capital gains should be reduced to make it more internationally competitive. At present, it appears that the taxation of capital gains is higher than the tax rate applied to dividend income for a large number of Canadians. Neutrality would be achieved with an inclusion rate of about 65%.

The Committee believes, however, that this should not be viewed as our ultimate goal. The inclusion rate should be brought down to 50%, as other personal and corporate tax rates also decline. This would make the taxation of capital gains more in line with that found in United States.

The Department of Finance estimates that a reduction in the inclusion rate to 65% would cost the federal government approximately $375 million per year, with approximately one-half of the tax savings accruing to businesses. It is not clear what the initial impact of such a reform would have on government revenues. As taxpayers can usually chose when to realize their gains, high tax rates cause them to lock in their gains to some extent. If a reduction in the effective tax rate reverses some of this, the government might actually receive a tax windfall in the initial years after the change.

During the course of our hearings, the Committee heard considerable testimony from a wide range of witnesses who recommended that the federal government provide further tax assistance for donations of appreciated property either as a way of funding charities or as a means of helping to conserve ecologically sensitive lands or heritage properties.

In the 1997 budget, the federal government reduced the inclusion rate for capital gains associated with publicly listed securities that have been donated to charities. Instead of the 75% that normally applies to capital gains, these donated securities would face an inclusion rate of only 37.5%.

The practice of donating appreciated property to charitable foundations is much more prevalent in the United States than it is here, largely as a result of the more favourable American tax treatment. Several witnesses recommended that the inclusion rate should be zero in the case of these donated properties.

The Committee notes that the federal government has enacted a wide variety of measures in recent budgets, aimed at promoting the charitable and voluntary sectors. **The Committee recommends that the capital gains inclusion rate for gifts of appreciated property should be set at one-half the rate for capital gains in general, and should automatically be reduced whenever the government reduces the general inclusion rate.**

The other issue concerns the selectivity of property that is eligible for measure. As this provision has strong support in the charities community, we believe there could be merit in extending its scope, although we understand the legitimate concerns about potential abuse. They are not necessarily insurmountable. **As a result, the Committee recommends that the government give consideration to extending the properties that would be eligible for reduced capital gains inclusion rates and develop a mechanism that would make such a policy feasible.**

7. RRSP limits

The Committee believes that measures to enhance savings by Canadian households should be actively pursued. Increasing the RRSP limit is one way to do so. **The Committee recommends that RRSP limits be increased within the next five years and that indexation provisions be applied to the new, higher limit which we support.**

8. The Canada Child Tax Benefit reduction rate

The Committee believes that the benefit reduction rate should be reduced gradually over time. Reducing it by one-half would cost the federal government approximately $1.2 billion per year, once fully phased in.

This measure would address several concerns. In the first place it would increase the number of families who are eligible for the benefit and it would increase the benefit for middle-income families. In both cases it would address the issue of horizontal equity between families with children and those without. The measure would also address the concern about high marginal tax rates faced by middle-income families. By lowering the benefit reduction rate, the effective marginal tax rates faced by these families also falls.

Such a measure is treated here as a tax cut. It could also be viewed as one aspect of what many refer to as a children's agenda. Indeed, some witnesses in support of a children's agenda argued that the best model in support of such an agenda is one that puts more money into the hands of families, not one that creates more programs.

Business Tax Changes

The issue of business taxation is a complex one. The Mintz report made that evident. It is a subject matter that would require a dedicated Parliamentary study on its own. Indeed, the Business Council of British Columbia recommended that this committee conduct such an examination of the Technical committee's report.

The Committee makes several recommendations in this area even though we recognize that a full-scale reform is probably more appropriate. Nevertheless, we feel it is important to give some indication as to the timing, direction and magnitude of the changes we have in mind. The government would undoubtedly have a more elaborate set of rate reductions and tax base changes to offer.

The Committee believes that the Corporate Income Tax System must become more neutral in its effective tax rates. Thus we give particular attention to a reduction in the general corporate tax rate. We believe that capital taxes are also an area that needs to be addressed and the earlier quote by the Canadian Bankers Association indicates that Canada again stands alone in its use of such taxes. Capital taxes are, however, primarily a provincial tool and we recommend that they be reduced in conjunction with provincial reductions.

But it is not just tax rates that make the business tax system non-neutral. There are a variety of deductions and write-offs that are either ineffective or favour one industry over another. Professor Jack Mintz claims that "... without losing a penny of revenue, governments could cut corporate income tax rates to the OECD average of 34% by eliminating ineffective write-offs for capital costs."[39]

The Committee recommends, therefore, that the federal government initiate a profound reform of the business tax system, designed to more substantially reduce business tax rates, restore neutrality and be appropriate for the new economic reality of global competition, factor mobility and industries based on innovation and human capital.

Some of the recommendations of the report of the Technical committee on Business Taxation dealing with base broadening include:

- *That special incentive rates of capital cost allowances - rates that appear to be substantially in excess of economic depreciation - be phased out or reduced over a transition period.*
- *That the maximum rate of write-off on development costs in both mining and oil and gas should be reduced from 30% to 25%.*
- *That the interest expense of Canadian taxpayers on indebtedness incurred to invest in foreign affiliates should be disallowed.*
- *That, subject to an appropriate transition period, provincial capital taxes not be deductible from the corporate income tax.*
- *That the rate of business taxation be internationally competitive.*

---

[39] Jack M. Mintz, "Target: Taxes," *National Post - Business Special*, November 1999.

The Committee has made few recommendations with respect to capital taxes, primarily because we did not hear sufficient technical evidence to make detailed recommendations in this regard. The Large Corporations Tax acts as a type of minimum tax, for example, as the amount of tax paid may be deducted against the corporate surtax. We have stated earlier, in our Report[40] on the MacKay Task Force that capital taxes are particularly counterproductive in the financial sector where capital is an essential ingredient of safety and soundness. In this regard we do believe that capital taxes on financial institutions are inconsistent with a sound and safe financial sector. However, our recommendation to lower the general corporate tax rate helps to address this issue.

Capital taxes are primarily a provincial tool.

We recommend in the meantime that the federal government work with the provinces to develop common definitions of capital for tax purposes and a joint plan for the reduction of these taxes.

Our members want lower personal income taxes for all income earners.

Canadian Federation of Independent Business

In the short run, our other recommendations should offset the negative effects of capital taxes.

The Committee has also not made any specific recommendations with respect to the small business sector. The Committee is extremely concerned about the health and vitality of small businesses. This sector would benefit directly from lower capital gains taxes and reduced EI premiums. In addition, the tax rate applied to small business in Canada is already the lowest of the major industrialized nations.

Primarily though, we believe that the best way to support small businesses is through lower personal income taxes, where we have made numerous recommendations. For unincorporated businesses, these changes are effectively reductions in small business tax rates. For incorporated small businesses, they benefit owners who are also employees or who receive dividends from their investments.

40 *The Future Starts Now: A Study on the Financial Services Sector in Canada.*

CHAPTER 3:
PRODUCTIVITY: GROWING THE PIE TO ENHANCE STANDARDS OF LIVING

Last year, the Finance Committee's Pre-Budget Report had productivity as a major theme. It was followed by a more detailed and extensive study of the subject matter in the spring. In this year's Pre-Budget Consultations, Canadians were of the opinion that the government still has much to do in order to improve their standard of living.

> I have always argued that the whole purpose of economic development is obviously to generate a better standard of living for all Canadians. Now, if you start from that premise, it is very important that we have growth to do that. It is very important that we have innovation to do that. It is very important that we have all those elements of growth that in fact allow, not just Canadians as a humane society but any society to be able to generate a better standard of living. That should be the cornerstone.[41]

> We also believe that it's extremely important to address the issue of increasing productivity in this country. Productivity is the ability to work efficiently. According to the Canadian Chamber of Commerce, Canada has the lowest rate of growth in productivity in the G-7 nations over the last 25 years. The OECD has warned that Canada's per capita GDP is expected to drop from 10% above the OECD average, to 15% below within 20 years.[42]

Although the economy is performing well, with strong expansion of output and employment growth, there are many things that could be done to continue improving our productivity and general level of wealth and prosperity. Many witnesses offered us opinions as to the appropriate way to stimulate productivity. This chapter will reflect their views and outline where the Committee believes the government should go to meet this challenge.

First, it is important to explain what we mean by productivity. Productivity is not a concept that we promote for its own sake. Nor is it a concept that we promote instead of other goals. Rather, it is something that we promote in order to achieve the vast variety of economic and social goals that are supported by Canadians. Productivity is the primary method by which we can enhance our standard of living.

---

41 Thomas d'Aquino, BCNI, *Proceedings* 28:1155.

42 Martin Lockyer, St. John's Board of Trade, *Proceedings* 12:1525.

What is Productivity and How Does it Relate to the Standard of Living?

Marc mentioned productivity and understanding better what that means and how we measure it and how we improve productivity. That's an area where we would like to devote more resources if they become available.

Social Sciences and Humanities Council of Canada

While productivity has become a fashionable word in the media and in the public policy debate, it is evident that many Canadians still do not know precisely what it means and how it may affect our standard of living.

Productivity is not the same thing as the standard of living. The standard of living is a phrase which describes the economic well-being of Canadians. Typically, it is measured by GDP per capita, which simply tells us the amount of goods and services that can be consumed so as to satisfy our wants and needs. Canadians may wish to consume these goods and services privately, allowing every individual household to make its own decisions about their own priorities. Or, we may simply prefer to consume some goods and services publicly where they can be provided in a more appropriate and efficient manner. If we think of GDP per capita as the pie, our standard of living is measured by the size of that pie but not necessarily by its ingredients. Our standard of living, i.e. the size of the pie, is determined by the quantity and quality of the inputs we use in the production process and the efficiency with which we use those inputs.

Productivity, in contrast to the standard of living, is the means by which this pie can continue to grow over time. Put simply, productivity is the ability of our economy to produce more output per unit of input. Thus it measures the efficiency with which we use inputs in our production process.

The essence of productivity is creating the most value with the least inputs. (. . .) To attract investment capital and sustain well paid jobs, a company must maintain and improve its productivity at least as fast as competitors. This is the essence of competitiveness. And today that means sustained innovation. If Canadians generate high value through their work, then their levels of compensation — high by world standards — can be improved and sustained. If not, in an economy open to world competition, Canadian living standards will be forced down.

Canadian Steel Producers Association

> In simple terms, productivity is the value of what is produced divided by the cost of producing it. We can enhance productivity performance two ways; by cutting the costs of production, or by increasing the value of the goods and services we produce, or by doing both. But to become more productive and at the same time create new good jobs for Canadians, the emphasis must be on increasing the value of what we produce. This is done by creating new goods and services that succeed in the world market, and that is the kind of innovation in which NSERC is most involved.[43]

Our standard of living at any point in time is the result of past economic growth, fuelled by the greater, and better, use of labour and capital, and the techniques that we employ to convert inputs into outputs. Our standard of living today is the cumulative result of many decisions and many factors over a long period of time. Thus, when we talk about productivity enhancement, we are really speaking about the future.

Even the best laid plans of any government can have only a small impact on the annual rate of productivity growth. Nevertheless, if a small and permanent increase in productivity enhancement can be accomplished, the

[43] Natural Sciences and Engineering Research Council of Canada, brief, p. 2.

ultimate result in the future can be dramatic. For example, it is well-known that the rate of economic growth in the 1980s and 1990s had declined substantially from that found in the 1960s and early 1970s.[44] Had the rate of growth remained at those high levels, our standard of living today would be far higher than it actually is. Many economic and social problems that we now face would not exist if economic growth had remained at higher rates. Similarly, many of the challenges associated with demographic change, i.e. the ageing of the population, can be dealt with through faster economic growth.

This point was made well by the submission of the Assembly of First Nations (AFN), when they stated that: "This coming period of surpluses is therefore just a window of opportunity for Canada to take measures to improve productivity before facing the cost pressures implied by an ageing society." (p. 2)

While it is easy to dismiss claims that growth could be enhanced by, say, 0.5 percentage points every year, it might be instructive to cite the case of Ireland. In the period from 1994 to 1998, real output has increased by 50% with inflation within the same range as in Canada. The unemployment rate has fallen almost in half and the government is now expecting a surplus equal to about 3% of GDP in 1999. This growth rate in unprecedented amongst industrialized nations and is forecast to continue over the medium term.[45]

The purpose of our productivity inquiry during this set of Pre-Budget Consultations and our previous investigation was to identify those initiatives that the government might take so as to enhance productivity growth, leading to more rapid economic growth and a higher standard of living for all Canadians.

What We Learned About Productivity and Economic Growth

The factors that stimulate productivity growth can be classified in the following way: investment and capital formation, education and human capital, technological progress, international trade and competition, and taxation.

44 From 1966 to 1973, labour productivity in Canada grew by about 3.7% per year. After 1973, labour productivity growth fell to between 1% and 1.5% per year.

45 Government of Ireland, *Economic Review and Outlook, 1999.*

Why is enhanced international trade and foreign direct investment favourable to productivity growth?

- *It exposes domestic firms to greater competition.*
- *It enables Canadian firms to expand markets and enjoy the benefits of economies of scale and scope. It is an antidote to small size.*
- *It fosters the importation of new cutting-edge technology.*
- *It helps to diffuse technology.*
- *It exposes Canadian managers to new management techniques.*

What is the evidence?

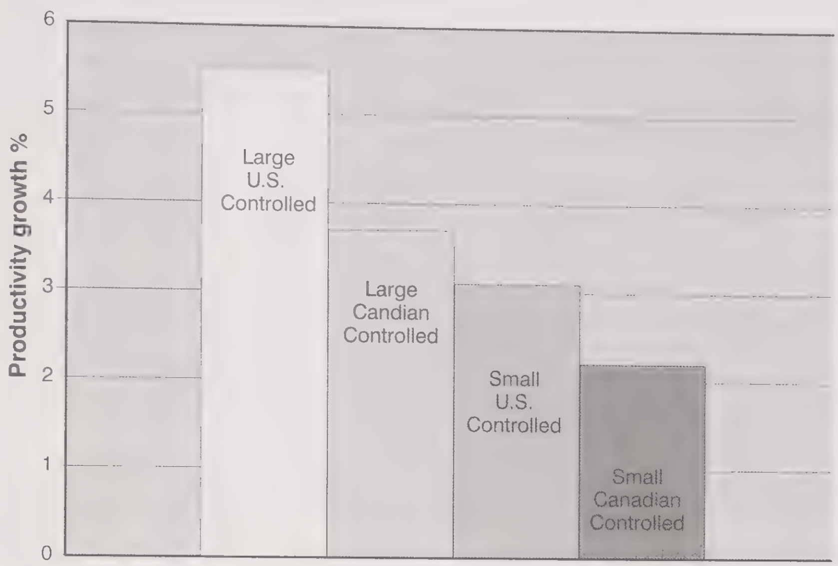
Professor Daniel Trefler presented two pieces of evidence concerning the beneficial effects of trade and foreign investment, summarized in Charts 1 and 2.

- *Based on a sample of 200 Canadian manufacturing industries, industries that were the most protected prior to free trade enjoyed productivity boosts two and one-half times as large as those that had only average protection.*

American controlled Canadian plants, of whatever size, displayed annual productivity gains 40% to 50% higher than Canadian controlled plants.

Chart 1: The Impact of the FTA on Annual Productivity Growth by Pre-FTA Tariff Levels

Chart 2: Annual Productivity Growth in Canadian Plants



With respect to investment and capital formation, one of the non-controversial conclusions among experts is the fact that economies which save more and invest more tend to have higher growth rates than other economies. The more capital that workers have at their disposal, and the more up-to-date that capital is, the higher will be the level of labour productivity. Unfortunately, our rate of capital accumulation has been in decline. In the 1970s net investment exceeded 10% of GDP and reached a peak of almost 15% in 1974. During this decade it has been in the neighbourhood of 5% to 6% of GDP. When compared to the existing capital stock, the story is the same. In the 1960s net investment averaged about 5% of the capital stock. Now it is about half that rate.

The public sector can play an important role in enhancing capital formation. In fact, public infrastructure supports private activity by making it more efficient. This public infrastructure consists of transportation facilities such as roads and bridges, telecommunications systems, water and sewer systems, educational and health care facilities.[46] Government involvement in many of these areas can also bring important environmental benefits. For example, the federal government is participating in a demonstration project (the SUBBOR process) aimed at reducing landfill disposal of municipal solid waste, therefore reducing greenhouse gas emissions.[47]

46 Telecommunications infrastructure is increasingly being supplied by the private sector. In some countries, the private sector is also an important supplier of health and educational infrastructure as well.

47 The SUBBOR process or "Super Blue Box Recycling" consists of a total solution waste management technology that requires no pre-sorting, no landfilling and no incineration. Solid waste is transformed through technology into recyclable products (steel, plastic, paper, etc.), peat and electricity (methane gas). See SUBBOR's brief.

However, government expenditures on infrastructure have decreased substantially over the past three decades. In the 1960s Canadian governments were collectively spending about 5% of GDP on real gross fixed investment. Today they are spending proportionately half that amount. In part, this might be due to the fact that we had significantly added to our stock of infrastructure in the 1960s. Nevertheless, the decline in public spending suggests that this stock is not being adequately maintained.

Canada has twice the level of people who haven't completed high school as the United States. So investments in education are vitally important on a productivity agenda.

John D'Orsay

> . . . our infrastructure continues to deteriorate, and the cost of repairing and maintaining these facilities continues to increase. We believe that insufficient investment in our infrastructure leads to a number of problems we face today, including traffic delay and congestion, air pollution, traffic accidents and contaminated drinking water. This adds a considerable cost to the public health care system, and has a negative effect on our overall economic productivity.[48]

With respect to education, it is well acknowledged that human capital is increasingly playing a vital role in productivity growth. The most modern and productive technologies require highly skilled workers in order to take advantage of that technology. Economies with poorly skilled workers are relegated to using older and less productive technology.

> Increases in productivity for Canadian manufacturing, brought about by technological change, will require ready access to highly skilled people.[49]

However, for individuals to acquire high skill levels, they must have the capacity to learn. We are coming to recognize that the capacity to learn is determined very early on in the life of children. If that capacity is constrained at that time, it is very difficult to reverse the effect. This is a perfect example of the long-term nature of productivity and the factors that determine it. It is also a perfect example of the manner in which social capital, or social programs, can in fact be productivity enhancing. If done properly, early childhood intervention is as much an investment as is the acquisition of new physical capital, the acquisition of a university degree, or research and development activities.

> Investment by all sectors of society in the early years is as important as our investment in education to ensure Ontario has a highly competent and well-educated population, all necessary for a strong economy and a thriving democracy.
>
> . . . Acting now will put our children and our society on a firmer foundation for the future. This action is necessary, not only to keeping a reasonable standard of

---

48 Consulting Engineers of British Columbia, letter to the chairperson, September 3, 1999, p. 2.

49 Del Bruce, Canadian Tooling and Machining Association..

> living, but also because it is the right thing to do for our children.[50]

With respect to lifelong learning, many witnesses identified training as an area that warrants significant new investment. Programs presently exist to support training of unemployed or displaced workers. Given the rapidly evolving nature of our economy, however, it is important that workers engage in lifelong learning so as to maintain sustainable employability before a job loss occurs. This requires individuals to tailor training to their own interests and needs. The federal government has already taken steps to promote this by allowing RRSPs to be used for lifelong learning.

Technological progress, which is brought about by changes in the goods and services that we produce and changes in the way we produce them, is the driving force behind productivity and long-term economic growth. For technological progress to take place, it is important that an economy and a society be open to new ideas, new challenges and new opportunities. To innovate with success, not only do we need a highly skilled and flexible labour force, but we also need a private sector with creative management and high-quality leadership.

However, Canada is not keeping pace with our competitors in the transition to a knowledge-based economy, founded on innovation. By almost every measure, Canada's innovation performance lags that of our principal competitors, in particular the United States. According to statistics provided by the Aerospace Industries Association of Canada:

- Canada's overall expenditure on R&D as a percentage of GDP is the second lowest of G-7 countries, only ahead Italy.
- At 1.8% of GDP, R&D expenditure in Canada is 30% lower than that of the United States (2.7%).
- R&D spending by universities as a share of GDP is the second lowest in the G-7.
- American firms invest about twice as much in R&D as do Canadian firms.
- Total technology intensity is lower in almost all Canadian industries compared to the United States.
- Adoption of existing technology by Canadian firms is significantly below that of United States firms.[51]

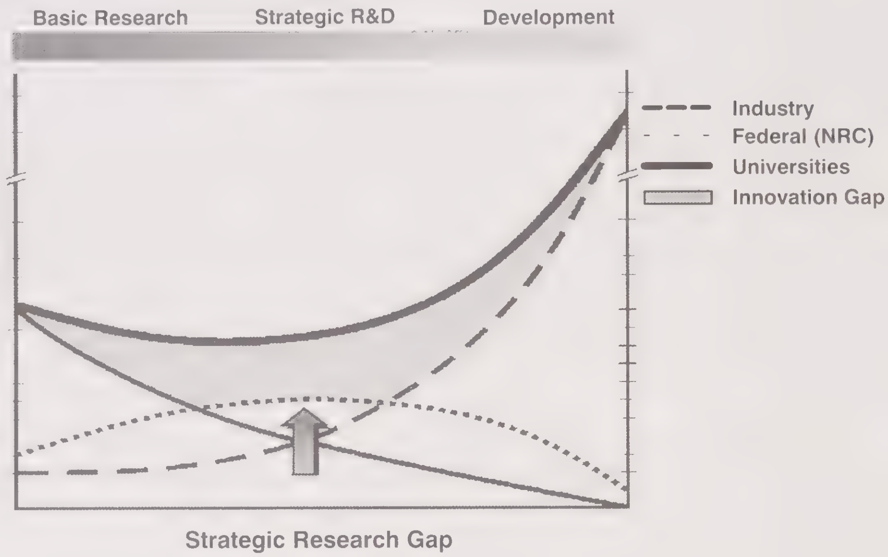
The Committee was told that there is also an innovation gap between the various players of its innovation system. This innovation gap is well depicted in the Chart 3, which was provided by the National Research Council. The innovation gap has been a factor in our poor productivity performance. We

50 Fraser J. Mustard and Margaret McCain, *The Early Years Study*, April 1999, p. 2.

51 Aerospace Industries Association of Canada, brief, p. 7.

clearly need to do a lot more, particularly in the area of basic research, if we want to improve our competitive position in the new global economy.

Chart 3: The Innovation Gap



Nevertheless, Canada is doing better with respect to investment in leading-edge technology. A recent study indicates that private sector expenditures on computers and telecommunications equipment have climbed at a rate of 19% annually since the beginning of the 1990s, outpacing the corresponding rate of growth of 16% in the United States. This study also shows that the output of the Canadian high-tech sector has grown more than 10% annually since 1995, a rate 3.5 times as great as the growth in GDP.[52]

In fact, computers and telecommunication technologies are rapidly transforming about every sector of the economy (medicine, finance, education, etc.), and they also contribute to the process of globalization. With the growing importance of the Internet, it is likely that the nature and structure of corporations will be vastly different in the future. The relationship between employers and employees will also be very different from today's relationship and especially yesterday's relationship.

This will have far-reaching effects on the way in which governments can, and should, regulate business activities and business relationships. To give some examples, what does it mean to prevent a bank from directly selling insurance in its physical branch if at the same time a customer banks over the Internet and, through a hyperlink, is only one or two clicks away from purchasing insurance from the bank's subsidiary? What does it mean to prevent Canadian institutions from providing a bundle of services when

52 Aron Gampel, "Investing in Canada's High-Tech, High-Growth Future", in *Scotia Bank Economic Commentary*, October 28, 1999.

Canadian customers can easily purchase any desired bundle by visiting an appropriate Web site, either domestic or foreign?

Moreover, as electronic commerce increasingly enables product suppliers to differentiate various functions, for example distinguishing between the supply of product information and actual product delivery, what does it mean when we impose certain types of ownership restrictions on financial institutions, or limit their business powers?

And finally, what does it mean when traditional suppliers of telecommunication services or radio and television services are subject to Canadian content restrictions while those traditional sources of supply become supplanted by a totally unregulated and global Internet platform?

When Gordon Thiessen, the Governor of the Bank of Canada, appeared before the Committee last year he argued that an open and flexible economy was an important prerequisite for an efficient and productive economy. Changing technology and increased globalization make such flexibility even more important than it was in the past.

To see how high technology affects productivity, consider some basic facts from the United States

- *Workers in information technology industries earn more than other private sector employees, and their wages are growing at a more rapid rate.*
- *Information technology spending accounted for approximately 15% of business equipment spending in 1980. Now, that figure is 45%.*
- *The American inflation rate is one-half of what it would be in the absence of the information technology sector.*
- *14% of American growth now originates in the information technology sector. In 1991, it was closer to 6%.*

And from Canada

- *From 1995 to 1999, high-tech investment grew by 27% per year while investment in machinery and equipment grew by 13.7%.*
- *High-tech investment rates in the second half of the 1990s were twice that of investment rates in the first half of the decade. The growth of multi-factor productivity also doubled in the second half of the decade.*
- *The price of high-tech equipment is now only 40% what it was 10 years ago. This has helped to moderate inflation in machinery and equipment, and the economy as a whole.*

Our chapter dealing with the new economy recognizes this. We note that technology is evolving rapidly and that the lifespan of new technologies is in fact very short. This makes it virtually impossible to regulate the economy in the same manner in which we regulated it in the past, principally because regulators cannot keep up with technological developments, and hence economic trends.

Linked to technological progress and flexibility is competition. It is this process of competition that provides incentives for Canadian business firms to offer the best products at the best prices. To be able to do so, they must be as efficient and competitive as alternative suppliers. Thus international trade and open borders are extremely important in ensuring that relatively small economies like Canada's will enjoy the benefits of widespread competition while at the same time enabling domestic firms to access worldwide markets. In the context of globalization, Canadian firms can grow to be large, taking advantage of economies of scale and economies of scope, even though they may be based in a relatively small market.

Unfortunately, being able to compete in terms of quality of work and labour and other production costs is not enough in this sector. Large foreign subsidies ranging from 2 percent to over 30 percent have effectively prevented Canadian shipbuilders penetrating most foreign markets. Repeated international efforts to bring this sector into line by removing barriers to trade and protectionist measures, have been unsuccessful. For example, OECD efforts to establish a "level playing field" in the commercial shipbuilding and repair industry, including the elimination of direct shipbuilding subsidies, have failed to achieve ratification.

Marine Workers Federation CAW-Canada

For competition to be effective, however, there must be a level playing field. This does not seem to be the case, for example, in the shipbuilding industry where many countries, with the exception of Canada, provide government assistance (such as direct subsidies, tax benefits, customs duty, levies and restrictions, etc.) to shipbuilders. The Committee was told that the Canadian shipbuilding industry is at a disadvantage to that of its foreign competitors and that this has contributed to the steady decline of our shipbuilding industry in the 1990s. We understand the important role this industry plays in various regions of the country as well as in the global trading and transportation system. **For these reasons, we urge the federal government, in collaboration with provincial governments, to examine the issue of shipbuilding in Canada and the ways this industry can meet its international challenges.**

Canadians have not been very successful in the total integration of domestic markets. Although the federal government and the provinces have undertaken initiatives to secure internal free trade, this process is still incomplete.

It is this competition which forces companies to adapt to new circumstances and new opportunities. We need only look at the changing culture of telecommunications companies that now face extensive competition instead of the protected, monopolistic markets they faced in the past.

The link between taxation and productivity can be best explained by the manner in which taxation affects the incentives faced by individuals and corporations and how it affects their decisions. What is important is not just the level of taxation but the composition of those taxes and the way they are imposed on the economy. Our chapter on tax relief and reform looks at taxation options that can sustain economic growth.

A recent study of the link between taxation and economic growth came to precisely these conclusions.[53] The economic literature has used a variety of techniques to study this relationship, both within the American context as well as internationally. A study of this literature made it evident that higher tax rates were associated with lower growth rates. Moreover, it concluded that the composition of taxes can have a strong effect on economic growth, for example with income taxation having the greatest negative effect and broadly based consumption taxes having the least negative effect.

In the short run, the effects seem minor, but over the longer term, they prove to be quite substantial. Again, this is something that we have stressed continually, within the context of productivity and economic growth. To quote from the study:

> . . . a major tax reform reducing all marginal rates by five percentage points and average tax rates by 2.5 percentage points is predicted to increase long-term growth rates by between 0.2 and 0.3 percentage points.

The study went on to add, within the context of the American economy:

> . . . even these modest growth effects can have an important long-term impact on living standards. For example, suppose that an inefficient structure of taxation has, since 1960, retarded growth by 0.2 percent per annum. Accumulated over the past 36 years, the lower growth rate translates to a 7.5 percent lower level of GDP in 1996, or a net reduction in output of more than $500 billion annually.[54]

Finally, we would like to cite this study in one further regard, supporting very much the conclusions and recommendations of the Mintz committee report on business taxation. Specifically, the intersectoral allocation of capital was found to be an important element of economic growth. When taxes distorted this allocation, the way it does in Canada, economic growth was found to be adversely affected. This is precisely the point made by the Mintz committee recommendations that the business tax system should be more neutral. The lesson to be learned from this is that not only is investment important, it is important that it be directed to the most profitable endeavours.

> Canada's high level of personal income tax has contributed to steadily eroding incomes, significant declines in Canadian savings rates, and steadily rising debt-to-income ratios. Taxes are a factor in the "brain drain" to the United States, and contribute to ongoing difficulties in attracting and retaining skilled professionals. Furthermore, taxes are a factor in Canada's poor productivity and GDP growth performance, as they are a disincentive for work, and

53 Eric Engen and Jonathan Skinner, "Taxation and Economic Growth," *National Tax Journal*, Vol. 49, No. 4, 1996.

54 Ibid., p. 636.

> inhibit risk taking and investment in Canada. (Aerospace Industries Association of Canada)

With respect to corporate taxation, we were told:

> . . . a reduction in corporate income taxes — particularly for small to medium-sized enterprises — would serve to free up considerable levels of capital for strategic investment. Effective investments in areas such as information technology would allow more small to medium-sized Canadian businesses to take advantage of the opportunities presented by the new economy — including e-commerce and other emerging areas. This step would also serve to attract additional investment capital into this and other industries, enhancing domestic and international competitiveness. (Automotive Industries Association of Canada)

What Has Been Accomplished to Date

Over the past several years the federal government has undertaken a variety of initiatives that have moved the Canadian economy in the right direction, towards a more productive economy.

The most important thing that the federal government has done is to provide a sound and stable fiscal and monetary environment. By eliminating the deficit, reducing the debt-to-GDP ratio and achieving price stability, confidence in the Canadian economy has been restored and interest rates have fallen to historically low levels.

Opening the economy to more free trade through the Canada-United States Free Trade Agreement (FTA) and the North American Free Trade Agreement (NAFTA) has expanded the markets for Canadian businesses and enhanced competition in domestic markets. This has also been achieved through the deregulation of certain markets, enhancing competition and business opportunities. The financial sector is a perfect example, but the same is true of others such as telecommunications.

The social safety net has been reformed to make it more secure and to improve the functioning of labour markets. Employment Insurance (EI) reforms have been the most prominent in this regard, but so has the reform of CPP/QPP premiums and investment policies to make the system of retirement income security more sustainable.

The government has also made a number of investments for a productive economy. It has enhanced access to post-secondary education and lifelong learning, through the creation of the Canada Millennium Scholarship Foundation, the Canada Education Savings Grant, as well as through various

tax measures such as the increased tax support for tuition and living expenses. Support for research and development has been secured by enhancing funding for granting councils and by creating the Canada Foundation for Innovation and the Canadian Institutes of Health Research. The Throne Speech announcement to create 1,200 to 2,000 university research chairs is another valuable initiative.

We have also seen significant reforms in the financial services sector with the potential of more to come. And the government is moving out of areas in which the private sector is better suited. Privatization and commercialization of several activities has been completed.

The government has also commenced the process of tax reduction, initially limiting tax relief to those most in need, but subsequently broadening the scope of tax cuts to include all Canadians.

CATA Alliance would like to congratulate the Government on its commitment to R&D. The Canada Foundation for Innovation and the Canadian Institutes for Health Research increased budgets for the granting councils and their recently announced funding for 2,000 university research chairs are significant measures to support scientific research in Canada. These are the types of program which stimulate the new economy and strengthen Canada's position in the world.

CATA Alliance

What Still Needs to Be Done

A seven-point productivity program for business

- *Choose a benchmark against which to measure the organization's productivity. The benchmark is to include the best in the world.*
- *Measure output in terms of resources required, and how well the company compares, to the best in its own industry globally.*
- *Communicate the results of the assessment. Low productivity is not a shareholder issue, it is a stakeholder issue.*
- *Find the reasons for the gap: whether service levels, equipment, investment, work practices, lack of innovation, or poor management.*
- *Design a strategy to reduce the gap significantly over three to five years. Commit the whole organization to closing that gap.*
- *Ensure that there are fair and generous redeployment programs for all who will be displaced. Productivity should be associated with gains in output and service for the economy as a whole.*
- *Communicate the strategy to all stakeholders. Publish it in the annual report and publicly commit the company to closing the gap in the organization. Assess performance annually, and publish the result.* (Paul Tellier, CN)

The new economy is knowledge based. It makes education an even more important factor in determining success, both for individual Canadians and the Canadian economy. Education, particularly lifelong learning, is where the government should focus any additional social investment. Programs like SchoolNet and Community Access, which give all Canadians access to the global knowledge network, are good models.

CATA Alliance

According to a recent OECD economic survey, there are still several areas where the government needs to improve its policies in order to improve the standard of living of Canadians over the medium and long-term. These are:

- A reduction in the average tax burden facing individuals and businesses, and a reduction in marginal tax rates.
- A restructuring of the business tax system to make it neutral and internationally competitive.
- Continued attention to the upgrading of labour force skills for those with little previous attachment to the labour force.
- Continued efforts to bolster the mobility of productive resources, and goods and services across provinces.
- The maintenance of wide and secure access to world markets.
- The creation of a policy environment to accommodate the changing nature of competition in various sectors in response to globalization and the rapid developments in information and telecommunications technology.[55]

The Committee's Report, *Productivity With A Purpose* provides a discussion of the various statistical and conceptual issues relevant to this subject. It noted that productivity growth had slowed considerably after the mid-1970s and that we have not been able to close the productivity gap with the United States. We will not repeat that discussion here. Our concern is to identify those factors that are important to raising the level of productivity and its rate of growth and consequently improving the standard of living of Canadians. In that Report we set out a guide for enhancing productivity. It listed the principles that we believed to be important for increasing productivity, setting out the appropriate role for government. Our goal during these hearings was to refine that guide and gain some additional concrete examples, detailing how such a policy could be implemented. The main points that we listed in our guide for enhancing productivity are as follows.

Getting the fundamentals right: This element deals with the broad economic environment in which the economy operates. **The Committee supports the Bank of Canada's policy designed to achieve price stability.** In addition, the debt-to-GDP ratio should be lower and our recommendation that the Contingency Reserve be used exclusively for debt reduction when not needed is consistent with this belief. **Similarly we support the continuation of program review so as to focus government attention to those areas in which it has an effective role to play.**

Tax policy: Consistent with what we said earlier in this Report, it is the Committee's view that basic personal amount should be increased, marginal tax rates should be reduced, the 5% surtax should be eliminated, the corporate

[55] OECD economic surveys: Canada, 1999, Special Feature Structural Reform, p. 83.

tax system should be made more neutral and internationally competitive, and capital gains should be taxed at a lower rate than is now the case. The tax system affects economic activity not just because it appropriates income from the private sector but also because it affects the incentives that individuals and businesses face.

Support for education and skills development: The Committee continues to support past measures which enhance access to post-secondary education, provide tax support for higher education, and encourage education-related savings. By reducing marginal and average tax rates, individuals will have a greater financial incentive to acquire skills that would enable them to acquire better paying jobs.

For more than two decades the federal government has allowed taxpayers to invest in a Registered Education Savings Plan (RESP), designed to provide funds for the future education of the beneficiaries, usually the children of the taxpayer. Unlike the RRSP, taxpayers are not allowed a deduction for these investments. The income of the plan is, however, deferred until it is withdrawn and is then taxed in the hands of the beneficiary, typically at a zero rate of tax or a low rate of tax.

The *Economic and Fiscal Update* noted that Canadians have responded overwhelmingly to the RESP program since the Canada Education Savings Grant (CESG) was introduced in the 1998 budget. In less than two years, RESP savings doubled to $5 billion whereas it took 25 years to accumulate the first $2.5 billion. The Canada Education Savings Grant is a federal grant of 20% of contributions, to a maximum of $400 per beneficiary per year, and was a direct result of this Committee's 1997 Pre-Budget Report. We are pleased to note its success. The Committee regards it as an example of the positive contributions the federal government can make to education, skills development and the promotion of a productive economy for the new era.

Support for R&D: Technology is the key to higher productivity in the long run. **The Committee continues to support measures that promote the creation, and use, of new technologies.** As such, tax incentives for research and development, technology diffusion programs, research infrastructure, and adequately financed granting councils are important initiatives that the government has taken to promote R&D. We also note that research is a risky endeavour and that the tax system does have an impact on the extent to which individual Canadians and businesses undertake and finance risky activities. Our recommendation with respect to the taxation of capital gains and the reduction in general business tax rates support this view.

Social and labour market reform: An economy works best when individuals enjoy a basic level of security through a sustainable social safety net, while at the same time enjoying the opportunities provided by a flexible and efficient labour market. In the past the government has reformed the system of employment insurance, helped to reduce the welfare wall and has ensured the security of the social safety net. In addition, our recommendation to reduce the benefit reduction rate of the Canada Child Tax Benefit will promote greater labour force attachment.

Trade policy and investment policy: Although not addressed directly here, the Committee continues to support greater liberalization of trade and investment. Expanding markets and enhancing competition allows Canadian firms to achieve economies of scale and long production runs and subjects them to competition from the best in the world. Greater foreign direct investment, both inward and outward, allows a speedier and more extensive transfer of modern technology.

Letting the market work: Again this is not a subject matter dealt with specifically in the Pre-Budget Consultations. Nevertheless we reiterate our position expressed in the past that the government should reduce business subsidies, continue to privatize commercial enterprises, reduce the burden and use of economic regulation, and foster competition.

HOW GOVERNMENT CAN PROMOTE HIGHER LIVING STANDARDS	
POLICY AREA	***CHANNEL***
Fiscal and Monetary Policy	*Stable environment lowers interest rates and boosts confidence, encouraging investment.*
Tax Policy	*Taxes affect economic decisions. Higher taxes cause greater distortions.*
Education and Skills Development	*Fosters workforce attachment, enhanced productivity and higher real wages.*
R&D	*Provides innovation, enhancing productivity.*
Social and Labour Market Policies	*Removes barriers to workforce attachment. Influences work incentives.*
Trade Policy	*Increases competition and allows Canadian companies to achieve economies of scale.*
Letting the Market Work	*Improves market signals. Enhances productivity. Enhances competition.*

The Committee's Approach

In this Report, the Committee outlines a comprehensive and extensive program for tax relief and reform. We do so in large part because we believe such a program would have a beneficial impact on the efficiency of the Canadian economy and because it would stimulate further productivity growth, leading to even stronger economic growth in the future. The Committee is not the only voice calling for tax reductions as a means of stimulating productivity. Professor Pierre Fortin has concluded that "Canada

now has the opportunity to reduce taxes by up to $30 billion over the next 10 years. This opportunity should be used perceptively to protect work incentives, promote investment — not consumption — and strengthen the country's technological base and international fiscal competitiveness."[56] Similarly, the Committee was told:

> The tax level is undermining innovation and productivity, and is causing companies considerable problems maintaining staff and attracting people to work in Canada.[57]

The Committee has chosen to use tax reform/relief as the primary vehicle for promoting increased productivity not because we know that there are very specific and definitive links between productivity and taxation, but primarily because of what we do not know.

The factors that lead to greater productivity enhancement are complex and not known with precision. We know of many factors that are important. The testimony we heard during our consultations has confirmed what we heard in the past.

Investment is the key element to productivity growth. Public infrastructure, private machinery and equipment, basic and applied research and development, human capital formation, are all investments that contribute to productivity growth. And we are aware of some of the basic variables that promote such investment. We cannot say, however, just what is the relative importance of each of these types of investment. We do not know precisely what is the best way of encouraging each particular type of investment. More study is needed in this area, by government and by academics.

In other words, the Committee cannot micromanage the productivity process. Nor do we feel that any level of government and/or any government department can do so effectively. Therefore, the best approach to promoting enhanced productivity is to "get the fundamentals right." This means, that the government should pursue broad initiatives that are consistent with a healthy, prosperous, and growing economy, one that is suited to the new millennium and the new challenges and opportunities that it will bring.

Productivity growth is not something that the government can dictate. It is the result of private decisions taken within the context of economic markets subject to the fiscal, monetary, regulatory, and legal environment provided by government.

As such, the Committee concentrated on tax reform/relief primarily because this is an area where the government can make a valuable contribution.

Canada now has governments at all levels pursuing prudent fiscal policy, with stabilized and declining debt burdens. Canada now has an environment

56 Pierre Fortin, (1999) p.67.

57 Richard Patton, Canadian Chemical Producers Association, Proceedings 3:1555.

of low inflation and low interest rates. Given the policy of the Bank of Canada and its credibility in financial markets, this low inflation scenario should continue into the future. Canada now has an economy that is open to international trade and investment more so than at any time in our past. Not only are open borders accepted by Canadian, American, and other governments, trends in markets and technology will enhance this feature. The Internet, which is expanding rapidly, is inherently global in nature. Its defining feature is the fact that it eliminates distance as a factor in many kinds of economic transactions, particularly information flows. As the Internet becomes the new market place, it is difficult to imagine how governments could even attempt to shield their own economies from these international forces.

In addition, Canada now has an economy that allows far greater flexibility to businesses than it did in the past. The financial services sector is one example of this. The same is true of telecommunications. Nevertheless, in both cases and in others, there still exists the opportunity for greater regulatory freedom.

These broad approaches to economic policy all constitute productivity enhancing initiatives. They help to define the environment in which markets operate, without attempting to dictate just how those markets will operate or what they will look like.

This is precisely the role the Committee sees for our tax initiatives. In general, our proposals represent broad tax relief measures. We do not promote tax cuts for individuals or businesses in order to encourage them to do very specific things. We are not promoting tax preferences for investments in R&D or the acquisition of computers, for example. Nor do we promote tax cuts for particular sectors of the economy. Indeed, one of the perplexing questions about our promotion of R&D through generous tax support (indeed the most generous of all OECD countries[58]) is why this has not translated into higher R&D expenditures on the one hand and greater productivity growth on the other.

Instead, we have examined the tax system and tried to indicate those areas where it discourages the kind of behaviour that we think is consistent with enhanced productivity or where it treats one sector unfavourably vis-à-vis another. By addressing those particular areas of contention, we provide an opportunity for Canadian households and businesses to then react in whatever manner they think is appropriate.

Thus, for example, we recommend increases to the amount that individuals may earn free of personal income tax. This has the effect of lowering the average and marginal tax rates faced by low income Canadians who may have a few skills, and as a result enhances their attachment to the labour force.

[58] The effective R&D tax subsidy in Canada is about 2.5 times as great as in Australia and the United States, while it is about 3 times as generous as in France.

The Committee also recommends that the thresholds for the middle and upper tax brackets be raised, and that the middle marginal tax rate be reduced by three percentage points over a five-year period. These measures also reduce marginal tax rates as well as average tax rates. They help to encourage labour force participation by secondary earners in a family as well as human capital formation. Those individuals, who acquire new skills and enhance their income and employment prospects, will keep a greater proportion of the resulting income.

The Committee recommends that tax assistance for savings be increased and that the effective tax rate on capital gains be reduced. These will enhance savings and reduce our reliance upon foreign sources of savings. We recommend very general measures which do not direct where or how individuals or businesses should save or invest. More importantly, however, the reduction in capital gains could have a significant impact on the availability of equity financing for small businesses and new high-technology companies. Equity financing for these kinds of companies is typically found locally.

Finally, the Committee recommends that the statutory corporate rate of taxation be reduced, which would help to equalize the effective tax rates faced by various sectors of the economy. By doing this, the Canadian business sector will become more competitive and increase its rate of investment. These two effects will lead to a larger and more modern capital stock, enhancing productivity and the real wages of Canadian workers.

Do High Taxes Diminish Growth?

The Committee argued above in favour of tax reduction on practical grounds. That is not the only reason why we support tax reform/relief. There is some evidence that high levels of taxation do have a direct and negative impact on productivity and economic growth. This conclusion is an economic one and not an ideological one. In his budget speech this year, Gordon Brown, the Labour Chancellor of the Exchequer, said in the U.K. Parliament:

> The more enterprising our country becomes and the more wealth we create, the higher our standard of public services and our standard of living can be - not just for the few, but for all of us . . . Because for too long our tax system has undervalued entrepreneurship and investment, we are moving to cut taxes on business.[59]

While the link between taxes and economic growth is sometimes ambiguous or controversial, there are several clear ways in which tax policy could promote economic growth, according to the OECD. The first option is

59 Cited in Business Council of British Columbia, brief, p. 1.

to reduce taxes in those areas where the distorting effects are particularly high. This is in fact the message that the Committee received last year from Professor Jonathan Kesselman, when he argued in favour of tax reform. According to him, it is not just the level of taxes that matter but the composition of taxes. He noted that a variety of European countries face higher tax burdens in Canada, yet they have been able to achieve better productivity and faster growth than we have.[60]

In particular he argued that the Canadian tax system relies too heavily on income, especially capital income, and not enough on consumption or labour income. He argued that we rely too little on payroll taxes. In addition, it may be that the structure of payroll taxes is inefficient, adversely affecting individual behaviour. For example, where individual Social Security benefits are related to individual contributions, households view them as insurance payments or savings, albeit forced. They do not view them as taxes. In Canada, our Social Security programs such as CPP/QPP or employment insurance are viewed by individuals as taxes. But we do not consider RRSP contributions to be taxes. Why? Because RRSP contributions are clearly savings, with our return being based directly upon our contribution. We do not view CPP/QPP or EI premiums in the same light.

The OECD looked at tax rates and economic growth over the period 1980 to 1994. While there are clearly other factors affecting growth rate differences between nations, a clear negative relationship exists with respect to taxation. It suggests that a 10 percentage point increase in tax rates would reduce economic growth by one-half percentage point per year. While this may not sound significant, over time its impact can be dramatic. The difference between an annual growth rate of 3.0% and 3.5% after 10 years is a 7%. After two decades it is closer to 19%. An economic policy which causes us to be 19%, or even just 7%, poorer than we could have been is truly a costly policy.

The OECD also recommended that tax systems should recognize the growing integration of capital markets. Capital is becoming increasingly mobile.

Nevertheless, It Is About More Than Just Taxes

Despite our concentration on tax measures to promote productivity, there is more that government can do in a wide variety of areas. Tax reform can and should be complemented by other policies as well.

---

[60] Jonathan Kesselman, "Tax Cuts for Growth and Fairness," *Policy Options*, December 1998.

The Role of the Public Sector

Despite the fact that our Report recognizes that productivity enhancement will largely come from actions undertaken by the private sector, we do recognize that there is an important role for government to play directly as well as indirectly. As mentioned in our Report *Productivity With A Purpose*, investment in capital of all types is vital to enhanced productivity. As we noted,

> Capital can be thought of as comprising three distinct elements. There is physical capital, human capital, and social capital. To some extent all are linked together, but nevertheless, each has a distinct role to play. Physical capital, comprising machinery and equipment, and public infrastructure, has traditionally been the most important source of productivity gains. The higher the capital/labour ratio, the higher will be the level of labour productivity. Public infrastructure, for example roads, sewers, water systems, enable the market economy to function efficiently. Clearly then, physical capital comprises one component that is provided by the private sector and another provided by the public sector. The government has an important role to play with respect to both components. It finances, and typically directly provides, public infrastructure. Investment in private capital is influenced by the macroeconomic environment as well as the tax system. The government must ensure that the level of taxes, and the composition of those taxes, does not hinder the accumulation of private capital.

Public infrastructure spending in Canada is just under $20 billion per year, with the federal share at just under $3 billion. It has been stagnant over the past decade and is about half the share of GDP that it was in the 1960s. The deterioration of our transportation system is testimony to the fact that government spending priorities have clearly shifted away from infrastructure:

> *The federal government must be prepared to assist in the continuation of the recovery by reinvesting growing budget surpluses in the economy, including investment in a new national infrastructure program to upgrade deteriorating public infrastructure such as our highways and water treatment facilities, and to deal with global warming and other environmental problems.*
>
> Newfoundland and Labrador Federation of Labour

> As a collective voice for a broad-based coalition, representing all areas of the economy, we are greatly concerned about the deterioration of Canada's national highway system and its negative impact on Canada's economic growth, job creation and productivity. The evidence, both anecdotal and academic is clear: investment in Canada's national highway system will net government's a tangible return on that investment, save lives, improve productivity and contribute to economic growth.[61]

---

61 John D. Redfern, Coalition to Renew Canada's Infrastructure, *Proceedings* 3:1610.

IBC believes that governments in Canada should invest $100 million to $150 million per year in a Natural Disaster Protection Fund, including $33 million to $50 million of new spending by the Federal Government, matched equally by the provincial and municipal governments....to finance those expenditures that reduce the vulnerability of Canadian communities to losses from more frequent and more severe natural disasters.

Insurance Bureau of Canada

This has not helped our productivity performance. However, it is also important that public infrastructure be directed to those areas where it has the highest return.

The Federation of Canadian Municipalities (FCM) has submitted a budget proposal entitled "Quality of Life Infrastructure Program," in which it outlined anticipated needs with respect to environmental, transportation and social infrastructure over the next decade. It also proposed a funding program for the three levels of government and the private sector. Some of the anticipated investment needs include:

- $16.5 billion for water treatment and $36.8 billion for wastewater treatment;
- $9 billion for municipal roads;
- $8 billion for public transit; and
- $21 billion for social housing.

The FCM proposes that the federal government contribute 20% of the total public investment, with the provinces contributing another 36%. The remainder would be contributed by municipal governments. Like the previous infrastructure program, this one would be tripartite while at the same time allowing municipalities to establish investment priorities. The federal government in its Throne Speech has proposed a new infrastructure program, although one that will not start until 2001.

The federal government can also support infrastructure investments through its tax policy. The Canadian Urban Transit Association and other witnesses encouraged the federal government to consider employer-provided transit passes as tax exempt benefits in recognition of the beneficial impact of increased public transit use in urban areas.

Canada and the United States have different political systems. Nevertheless, Canadian cities must compete with American cities as the location for new economic activity. Public infrastructure, both physical and social, constitutes a vital factor that is taken into account when such choices are made.

The Greater Toronto Area generates about a quarter of national output and, if defined as the area within one hour's drive of Pearson International Airport, generates about one-third of national output. It is within one day's drive of 50% of the American consumer market and one-half of American manufacturing establishments. It is now very much a North American city rather than just a Canadian city. In terms of infrastructure, however, ". . . Toronto is investing at about one-fifth the rate of its competitor

cities . . ."[62] A large part of this difference is due to the larger role of the American government in infrastructure financing. For example, the American Transportation Equity Act for the 21st Century has a budget of $217 billion over six years.

The original federal infrastructure program was designed to achieve two goals. It was to "kick-start" the economy by creating direct employment and it was designed to renew Canada's public infrastructure. The first goal is no longer needed as the economy is performing well. Nevertheless, there is still a need to renew infrastructure and develop new infrastructure for the new economy. **As a result, the Committee recommends that the federal government initiate a new, long-term infrastructure program, in partnership with the provinces and municipalities, to fund new infrastructure initiatives. This program and its component investments must be subject to program review and meet the test of a Productivity Covenant. The Committee recommends that the federal government commit at least $500 million per year for at least five years.**

we'd like to publicly recognize the Speech from the Throne and the Prime Minister's response to the Speech from the Throne, where both the Governor General and the Prime Minister have recognized the need for a new long-term, five-year national infrastructure program and, in our view, in so doing have recognized the important connection between productivity, competitiveness, health and safe communities, a strong environment. Those are all hallmarks of this federal government's public policy stance, and so we're delighted that the infrastructure commitment in the Speech from the Throne and the Prime Minister's remarks confirm the relationship between those.

Association of Consulting Engineers of Canada

Government also is important in the development of human capital. Here, our record has been good in recent decades. Indeed, Canada has closed the school enrolment gap that existed vis-à-vis the United States in the late 1970s. But the nature of skills training and human capital formation is changing. The concept of life-long learning is becoming increasingly important and this kind of training often takes place outside of traditional public educational institutions.

But still worrisome is Canada's poor performance with respect to innovation and here the government can still play an important role. Canada invests just 1.8% of GDP in R&D. By contrast, the United States invests 2.7% while the OECD average is 2.2%.

While Canada has benefited from the knowledge produced abroad, that benefit tends to be limited and slow in coming when it has to be imported. It is estimated that it takes 15 years before half the benefits of international R&D make their way to a country that did not perform the R&D. Moreover, there are large externalities associated with local R&D. It attracts highly skilled workers who are then available to other high-tech companies in the same area. It is no surprise that high-tech industries, those that are increasingly responsible for productivity and economic growth, are clustered in well identified geographic locations. The Silicon Valley is a perfect example — Silicon Valley North is as well.

As the total return to research and development far exceeds that which can be captured by the company doing R&D, there is a strong and positive role the government can play. One way it can help is by providing an intellectual property regime that is conducive to this type of investment. We recognize that the market economy cannot function if private property is not protected. Increasingly, that valuable private property is intangible, comprising the fruits

62 Urban strategies Inc., *Reinvesting in Toronto: What the Competition is Doing*, March 1999, p. 7.

of research. If Canada is going to enjoy the benefits of the new economy, it must protect those inputs that are essential to it. At the same time, however, it must not allow the beneficial dispersion of knowledge to be restricted.

To demonstrate how our research and development spending hinders productivity growth, it is useful to cite some of the work being undertaken at the Canadian Institute of Advanced Research. For example, it is now understood that there are two types of market innovation. There is product innovation which, as the name would imply, involves the introduction of new products. The personal computer is one example. In contrast, process innovation refers to changes in the way existing products are produced. Canada appears to have a good track record in the second field but a poorer track record in the first. It is important to note that it is product innovation which is the primary source of the strong productivity growth experienced in United States. Canada's performance is a direct result of our failure to invest in R&D, the failure to tap into the American knowledge base, and our slower rate of technology adoption.[63]

The R&D tax credit although it's seen favourably does not get down to the small firms. The reason it doesn't, we've been talking to a few accountants, if it's below $10,000 it's not worth doing because of the paperwork and everything it costs $5,000 worth of advice to get it done so it's not worth doing it below a certain level. That's another area. There you're missing 78% of all businesses because they're less than five employees, and there's a lot of neat little things that can be going on. They can't even access the credit.

Canadian Federation of Independent Business

As we noted above, Canada's tax support for research and development is extremely generous. Why does it not work? This is a question that has perplexed many observers. Possibly the fault lies not with this particular tax measure, but with the overall tax system within which corporations must operate. Perhaps it lies with government funding of basic research. Perhaps it lies within the university community.

Whatever the case, the basic message is still clear. For Canada to fully participate in the new economy, it must create an environment in which scientific research can flourish and is encouraged. Opportunities for highly skilled Canadians must be in existence locally. Businesses must find Canada an enticing place to engage in all of the activities associated with the new economy.

The Committee heard testimony that recent federal initiatives have proven successful in reinvigorating Canada's research establishment. Renewed funding for the Granting Councils, the establishment of the Canadian Institutes for Health Research, the establishment and enhanced funding for the Canada Foundation for Innovation and the Throne Speech announcement regarding the creation of 1,200 and eventually 2,000 new research chairs in universities have all led a new sense of opportunity. There is one piece missing, however.

As noted by Robert Prichard of the University of Toronto, whenever a researcher receives a grant, he/she also imposes additional infrastructure costs on the institution to which that researcher is attached. Laboratory space must be provided — materials and equipment must be purchased. No external funds are provided for these indirect costs, and the required funds often come

63 Daniel Trefler, "Does Canada Need a Productivity Budget?" *Policy Options*, July-August 1999.

from teaching budgets. An investment infrastructure program would bring together all of the other federal initiatives, enabling research to be commercialized, and graduate students and post-doctoral fellows supported.

The Committee believes that research should not be fostered at the expense of university teaching and other university priorities. The federal government should ensure that its efforts to promote research comprise a coherent whole, complementing its own and provincial initiatives **Thus we recommend that a research infrastructure fund be established that would finance institutions' research-related costs flowing directly from other federal research grants.**

Post-secondary institutions are about more than research — they are primarily teaching establishments. They are the institutions that help to create the human capital that makes Canadians productive.

In last year's report on productivity, we noted that higher education reduces Canadians probability of being unemployed and increases their lifetime incomes. That is why human capital formation and access to education are high priorities of the government and why past budget measures have attempted to advance that cause.

Chart 4, which was provided by the Association of Universities and Colleges of Canada, demonstrates quite clearly that the Canadian economy is changing. Blue-collar jobs are being displaced by white-collar and high-tech jobs. Indeed, the message of this decade is that high school is just a stepping stone to higher education Chart 5, as its title implies, shows that job growth is taking place in those sectors where human capital is the most important. Both charts tell us very clearly just how important human capital is to the future of our economy. They also tell us that Canada is well on the way to becoming a "new economy" nation.

Chart 4: Employment Growth by Highest Level of Education 1990-99 (in thousands)

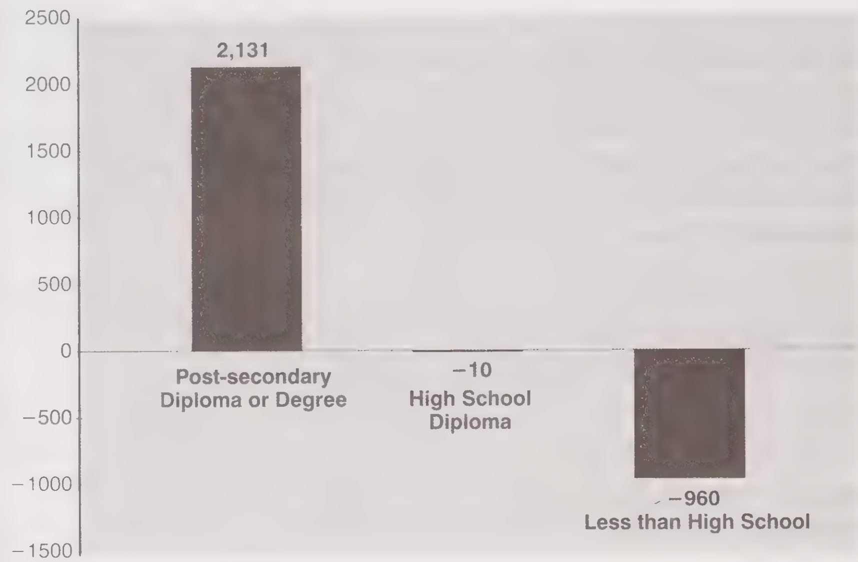
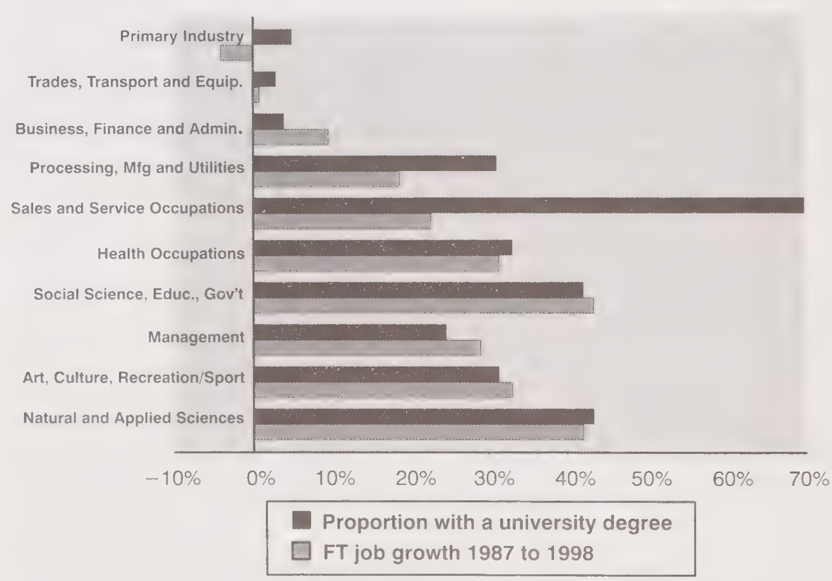


Chart 5: The Fastest Growing Occupations Require the Most Education



The Budget Process and Productivity

Consistent with our focus on productivity, we also make recommendations in this Report concerning the budget-making process. As noted earlier, economic growth and productivity are long-term concerns. They require a longer-term planning horizon than that which has been employed in the past few years. This is particularly true of policy initiatives whose impact is not just on the level of output but on the rate at which that output grows. Policy initiatives to influence economic growth and productivity enhancement are now being influenced by new theories of endogenous growth. This approach requires "... a policy maker to go beyond the short run in order to evaluate the consequences of alternative policy actions."[64] Even small changes can have a dramatic impact in the future if they affect the rate at which the economy grows. Indeed, if the federal government had only a short-run view of policy, it would never have pursued the monetary policy of disinflation nor would it have taken the measures contained in the 1995 budget. In both cases, the beneficial results manifested themselves well beyond the short run.

The need for a longer planning horizon is especially true of tax measures because of the way in which they affect the economy. Tax reduction does more than just put additional money in the pockets of individuals and businesses. It affects the returns that they get from investment and labour effort. As a result, for them to have the greatest impact in the shortest period of time, it is important that individuals and businesses understand what the tax system will be like in the near future. They must be aware of the tax environment in which they will find themselves when the returns to investment and labour decisions finally arrive.

More importantly, productivity enhancement is largely a function of investment. By its nature, investment is a long-term endeavour, requiring individuals and businesses to make decisions that will reap rewards only in the future. By presenting a five-year plan, we believe the government would be reducing the uncertainty of investors concerning the economic and fiscal environment that they will face. In addition it would send a strong message to the private sector, indicating that Canadians can expect higher after-tax rewards to work effort, investment and risk-taking.

The Brain Drain

In our Report entitled *Productivity With a Purpose* we examined the issue of the brain drain. At that time there was no clear consensus as to whether it is

64 Peter Howitt, "Endogenous Growth Theory: Taming the Winds of Change, or Tweaking Neoclassical Economics?" in Thomas J. Courchene, editor, *Stabilization, Growth and Distribution: to Linkages in the Knowledge Era*, The Bell Canada Papers on Economic and Public Policy, 1994.

indeed a serious problem. That is still the case today. However, the issue remains in the news and continues to have serious implications for the Canadian economy and society.

> There has been an assumption by some in the brain-drain debate that Canada does not need to worry as long as the number of skilled immigrants exceeds the number of people leaving. But many of the Canadians who are leaving today are taking their jobs with them . . . Now, as a country, we have to figure out what will persuade people with global skills to want to come here and stay here to live here, and, very importantly, to build successful enterprises. If, instead, Canada insists on making itself unfriendly to excellence, and to hire achievers, if we fail to build up a number of high-skilled, better paid jobs, then who is going to pay the bills for tomorrow's expanded social services?[65]

Our conclusion last spring was that the brain drain might not be a major problem in aggregate, as we tend to import more educated workers than we lose through emigration. It does, however, pose a serious problem for certain sectors of the economy. Moreover, it might be symptomatic of more serious problems facing the Canadian economy. What matters is not that we are losing a large number of well educated workers but that we are losing our best and our brightest.

Nortel, Canada's first US$100 billion company, is a case in point. It is a Canadian company with 22,000 of 70,000 employees located in Canada. But only 7% of the top 400 company executives work in Canada. It is a perfect example of a new economy enterprise, having remade itself to take advantage of Internet-based opportunities. It conducts one-quarter of Canada's private sector R&D and hires one-quarter of Canadian high-tech graduates. Yet it has difficulty in keeping its highly paid Canadian employees in Canada. In the words of its CEO John Roth, "It's pretty much a Canadian management team but living outside Canada, mainly in the States. They moved themselves to the United States."[66]

Of course the brain drain is a function of much more than taxation. One factor is the difference in salaries between Canada and the United States. According to Roger Martin of the Rotman School of Management, Canadian high-tech companies pay their employees significantly less than do American companies. Nortel, pays its entry level engineers $49,000 Canadian here but US$53,000 south of the border.

If Canada is to succeed in the new economy, it will need companies like Nortel and it will need the top executives currently working there and in other new economy firms. If Canada cannot attract and keep them, it does not bode

---

65 Tom d'Aquino, BCNI, *Proceedings* 28:0950.

66 Q&A with John Roth, *The Ottawa Citizen*, Nov. 13, 1999.

well for our ability to enhance our productivity and our standard of living. To quote Mr. Roth once again:

> What's not been realized is that Canada has created a huge incentive for Canadian corporations and its top achievers and high-tech entrepreneurs to leave . . . The top 400 executives (that's a half of one per cent of our employees) set the tone and direction for Nortel. You have to worry about the top people because they're the ones that lead the company forward. And when that talent decides to leave, then Canada is losing its high-value jobs and top achievers — the leaders . . . We're losing a lot.[67]

Concluding Remarks

Now that the federal government is in a position where it will likely generate ongoing surpluses, and growing surpluses, over the medium term it will face many claims on the surplus. A wide variety of new programs are being suggested by those who have a vested interest in such programs. Should the government succumb to the temptation to create new and expensive programs, we believe that a vital opportunity will be lost. The government has resisted the temptation for new spending programs in the past because it felt that its first priority was to restore fiscal credibility and stability. The government should continue to resist the temptation for massive new spending until the economy has been restored to a sound footing as well. The strong economic performance of the past few years is once again moving the economy towards a full utilization of its productive resources. However, unless productivity can be enhanced significantly, annual growth rates in the neighbourhood of 3% and higher will not be sustainable. And if that is the case, the kinds of fiscal surpluses that are now being predicted will not come to pass.

Thus the Committee believes that now is the time to actively promote measures that will improve the efficiency of the economy and its productive capacity. Tax reform/relief will do so more than any other initiative that can be undertaken by the government.

Moreover, as we note elsewhere in this Report, the provincial governments are also facing growing budgetary surpluses. They have access to virtually the same tax base as does the federal government and they will have greater flexibility to structure their taxes in a way that they see as most appropriate. Thus, for example, the tax measures that we propose will not necessarily have an adverse impact on provincial finances, unless the provinces wish that to be the case.

---

67 Ibid.

Put simply, it is our view that the provinces will have sufficient resources to undertake initiatives that are within their own jurisdiction. The federal government should be cautious therefore about new initiatives that are in the provincial domain.

The improvement in the fiscal position of Canadian governments in a short period of time has been very impressive and has been recognized internationally. Where we were once considered a "fiscal basket case" we now have an absolute decline in public debt, and an even faster decline in the debt-to-GDP ratio. The major structural reforms undertaken are now beginning to show some results. According to the OECD, "there seems to be some evidence that the payoff to such structural reform might now be emerging: revised data suggest Canada's total factor productivity performance over the past two decades has been better than previously thought, and there are some indications of improvements in trend productivity growth in the 1990s. However, while encouraging, this should not mask the fact that the level of productivity in Canada is still substantially lower than in the United States, so that continued structural policy effort is needed if Canada's standard of living is to catch up with its neighbour."

Our recommendations are designed specifically to address these challenges.

CHAPTER 4:
CANADA'S SOCIAL INFRASTRUCTURE

Social Infrastructure and Budgetary Surplus

This government committed itself at the beginning of this mandate to using 50 percent of any surplus for tax and debt reduction; the other 50 percent for investment in economic and social needs that will increase our quality of life over the long run.

The Honourable Jean Chrétien, Response to the Speech from the Throne, October 13, 1999

Social infrastructure is a broad concept that can encompass a variety of public services, policies and programs — in the field of education, health, housing, social assistance and welfare, support to families and children in need for example — designed to maintain and/or improve the standard of living and quality of life of a country's population. In the last Speech from the Throne, the federal government indicated its intention to strengthen Canada's social infrastructure when it stated that it would "devote half of the budget surplus to investments that address the social and economic needs of Canadians."

Throughout the Committee's hearings, however, there was no unanimity among witnesses as to how much of the budgetary surplus should be allocated to social spending. On the one hand, some witnesses suggested that the government be prudent and not invest in any new social initiative, unless it is financed via a reallocation of existing spending priorities. For example, in its submission, the Toronto Board of Trade explained:

> . . . eliminating the deficit has not been an easy task — reigning in program spending was not a popular choice with some Canadians. But to abandon that policy now and revert to the spending fiasco of the past is premature — it will erode all the hard work done by Canadians. We cannot state strongly enough the need to hold the line on program spending . . . Now is not the time for new spending — the surplus must be put back into the hands of Canadians through tax relief.

Similarly, William Robson of the C.D. Howe Institute stated:

> The surest way to make recent budget victories permanent is to pay down the debt: even surpluses of \$6-\$7 billion would reduce Ottawa's interest bill by some \$2 billion after five years. Spend the money instead, and some of the good news in upcoming budgets will disappear.[68]

These views were recently echoed by the International Monetary Fund (IMF) when they stated with respect to Canada's fiscal position:

> The IMF staff believes that debt reduction and income tax reform should be the top priorities in allocating the

68 William B.P. Robson, "The \$22.5 billion Question: Will Exposure Make Future Federal Surpluses Evaporate?", *C.D. Howe Institute Backgrounder*, October 27, 1999, p. 2.

(. . .) The government has referred to its policy of spending any budget surpluses in a "balanced" way: 50% on tax cuts and debt reduction and 50% on social programs. The relationships between the choices in this "balanced" approach must be recognized and built upon. For example, tax cuts versus health spending is a false dichotomy if the focus is on productivity. Both can lead to greater productivity. The same is true of health care spending versus the "children's agenda": both can improve the health status of children.

Canadian Healthcare Association

> prospective fiscal surpluses. While some additional moderate spending initiatives in the areas of education and health care would be useful, debt reduction and reform of income taxation are likely to produce more significant long-term benefits for the economy.[69]

Other witnesses, on the other hand, recommended that budget surpluses be invested in the social and health fields and that this should be done before any consideration is given to income tax cuts. In their view, tax relief measures should not compromise social investments:

> If social programs are under-funded, large amounts of human potential will remain underdeveloped and will be wasted . . . Canada has little chance of maintaining a top quality work force and standard of living if adequate resources are not devoted to the social and economic development of its population. (National Association of Women and the Law, last year's brief, p. 27)

Still, others favoured small increases in existing programs or modest new investment in Canada's social infrastructure:

> We simply believe our current debt levels preclude any dramatic increases in spending at this time. Once the debt-to-GDP ratio has been set on a clear downward track through a comprehensive plan aimed at significant debt reduction, we believe the government can safely undertake a greater degree of spending on key areas such as health care and education. In the meantime, however, we acknowledge the government's intent to meet the needs of Canadians by undertaking limited expenditure increases for priority programs. Accordingly, we support the next budget containing a modest increase of $1.5 billion directed to those social investments that the government determines will provide long-term benefits to Canadians and the economy. (Canadian Institute of Chartered Accountants, brief, p. 4)

The Committee believes that a sound social infrastructure begins with a strong economy. Without a strong economy and the tax revenues that result, the government's capacity to support necessary social programs is threatened. From this perspective initiatives aimed at growing Canada's ability to compete in the new, knowledge-based global economy, support the continuance of our social infrastructure. We must say that, too often, these kinds of initiatives are seen to be competing with our social programs for limited public funding. This view is short-sighted and could ultimately threaten the long-term viability of Canada's infrastructure of social programs.

Furthermore, while there are different ways to help Canadians succeed in the new world economy, improving productivity performance must be at the

---

69 International Monetary Fund, *Statement of the IMF Mission, 2000 Article IV Consultation with Canada*, November 16, 1999 (from the IMF's Website: http://www.imf.org).

heart of the approach chosen by the government. In our view, the most important way to do this is by investing in people, helping them develop the knowledge, skills and creativity to turn ideas into new products and process and by creating an economic environment in which they have the incentive to do so. We will be able to sustain an affordable social infrastructure if we target those areas where we can have the most impact.

Homelessness and Affordable Housing

In all the cities visited by the Committee, we heard that homelessness is a growing problem in Canada and that it affects not only the individual but Canadian society as a whole.

> It may be more evident in large, urban centres, but the issue of homelessness is fast becoming a concern for all Canadians because it affects our quality of life. (Toronto Board of Trade, brief, p. 8)

We were also told that homelessness was a problem that increasingly affects a larger segment of our population, including young people and families with children. Estimates suggest that there are approximately 200,000 people who are homeless in Canada; this represents 1 in 153 Canadians. Homeless people are at increased risk of tuberculosis, HIV infection, hepatitis, depression, post-traumatic stress disorder, starvation and death.

> The evidence that the crisis of homelessness in this city, this province and this country has become such a disaster, started to accumulate in late 1995 and early 1996. This included: serious overcrowding of our day and overnight shelter system; a 38% tuberculosis infection rate among the homeless; clusters of freezing deaths of homeless people; a rise in overall morbidity, including malnutrition; the spread of infectious diseases; and a rise in the number of homeless deaths. (Toronto Disaster Relief Committee, brief, p. 3)

Throughout the biggest urban centres of Canada, the homeless are becoming more visible and more desperate. Visits to emergency shelters have been growing in many communities and, increasingly, the homeless include families with children, teenagers and single women.

Canadian Housing and Renewal Association

According to Mayor Donald Cousens of the city of Markham, Ontario, over 300,000 tenant households in his province stand on the brink of homelessness, while another 100,000 are waiting for social housing units. The affordable housing stock is currently not sufficient to meet demand.[70]

70 Brief, p. 3.

Affordable housing, however, is only one part of the solution. In fact, many witnesses stated that solutions to homelessness lie beyond the immediate need for shelter. We were told that the best approach must involve our education, judicial and medical systems. Measures should also aim at preventing further homelessness. Furthermore, witnesses stressed that homelessness is not an issue for one level of government; it is the responsibility of all levels of government — local, provincial/territorial and federal.

The Committee shares these concerns. Homelessness is a complex problem that involves not only housing, but also other intertwined social, health and economic factors. It is important to understand the reasons behind, and paths leading to, homelessness in order to identify which programs and services can best prevent and reduce this problem in Canada.

We commend the actions of the federal government in naming Claudette Bradshaw as the Minister responsible for Homelessness, establishing a Secretariat on Homelessness and, through CMHC, for continuing to undertake research and sponsor forums on homelessness.

Canadian Housing and Renewal Association

On March 23, 1999, the federal government appointed Minister of Labour Claudette Bradshaw to co-ordinate federal activities related to Canada's homeless. It is expected that the Minister will present her recommendations on a federal response to homelessness to Cabinet shortly. Further, in the last Throne Speech, the federal government also indicated its intention to work with partners to help communities address the root causes of homelessness and help communities respond to their members' needs for shelter and other support.

The Committee strongly supports the work of the Minister of Labour on the issue of homelessness. We await her report and we urge the federal government to review its findings and recommendations and to act on this issue as soon as possible. Furthermore, we endorse any social investment to better understand and address the causes of homelessness in Canada. We feel that all levels of governments — federal, provincial/territorial and municipal — must collaborate to solve this problem. The Committee recognizes that additional resources will likely be necessary, but we cannot make specific recommendations until that report is made public and examined.

Similarly, with respect to the broader issue of affordable housing, the Committee shares the view of witnesses that all Canadians should be housed adequately and affordably from coast to coast. Again, we feel that this issue should be tackled by all levels of governments, along with local organizations.

Health Care

Numerous witnesses stated that Canada's health care system is of great benefit in this new and changing economy and should be given priority in future budgets. They explained that our health care system fosters economic growth through reduced employee benefits costs, access to healthy, mobile

work force and high-quality health research. For example, the Ontario Hospital Association stated:

> Universal access to quality health care services within Canada not only ensues a healthy, productive labour force, it also facilitates labour force mobility which allows Canadians to adapt to changing business requirements and opportunities.
>
> . . . investing in Canada's health care system will improve Canada's quality of life, enhance public health and safety, maintain our competitive advantage, and foster job creation and new investment.
>
> . . . Our health care system is a major reason why Canada continues to rank number one in the United Nations Human Development Index, and why several business studies regularly cite Canada's health care system as a competitive advantage for business over our largest trading partner, the United States. (Ontario Hospital Association)

Access to quality health and health care services is an important contributor towards Canada's ability to remain competitive in an increasingly complex global economic environment.

The Medical Society of Prince Edward Island

For many witnesses, the 1999 federal budget, often called the "Health Budget", was a welcome and important step in the right direction. For example, we were told:

> It [the 1999 budget] wisely provided funds to replenish health care areas that had been seriously depleted and provided funding in key areas, including health research, health information, First Nations and Inuit health services, and preventative health programs. (Canadian Nurses Association)
>
> The federal government has made positive reinvestments in health care and we encourage the government to build upon this leadership to allow for a healthy, productive and prosperous society for the future. (HEAL)

I must admit that this advice on my part is based on personal values. I think it would be absurd to throw overboard the kind of Canadian society our parents and grandparents have taken decades to build, with a somewhat higher (but not exaggerately higher) level of public service rendered in Canada than in the United States — and the top rank on the United Nations' Human Development Index going with it. I will add that my top priority for program spending growth would be that the government return to the health care sector the funds it has withdrawn by cutting transfers to provinces over the past decade.

Pierre Fortin

While witnesses were pleased with additional federal investment into health care, some of them suggested that more federal funding was necessary to address the challenges currently faced by our health care system. They also recommended that an escalator be used to calculate federal transfer payments to ensure a continual growth in cash transfers:

> Recommendation 6 addresses the need for a fully indexed escalator to ensure that the federal cash contribution will continue to grow to meet the future health needs of Canadians. The escalator formula recognizes that health care needs are not always synchronized with economic growth. In times of economic hardship (e.g., unemployment, stress, familial and social discord), a greater burden is often placed on

> the health care system. If left as is, the current federal cash value will continue to erode over time with increasing demands from an ageing and growing population, inflation, unemployment and other economic hardships. (HEAL)

Other witnesses felt that the objective of securing a strong and sustainable health care system for the future still remains incomplete. In their view, the status quo is inadequate: there is a need to better integrate health care, to enhance its effectiveness and to foster accountability. In their view, however, increased funding for health care is not the solution:

> . . . putting more money into the health care system, even if it were available, is not the answer. International comparisons indicate that the total level of financial support to Canadian health care as a percentage of gross national product is among the highest in the world. We emphasized the need to start to focus on an integrated system of delivering health care, rather than continuing to support the current system of inefficient, cost ineffective suppliers/stakeholders. Our focus is for the best quality health care at the lowest cost — a goal, which we believe, is shared by all levels of government.[71]

CHA and our member organizations are aware that money alone will not solve all of the challenges facing the health care system.

Canadian Healthcare Association

Witnesses stressed that in order to make the health care system more responsive to the needs of health care consumers and more effective, it is necessary to accelerate the integration of health care services — primary care, acute care, long-term care, and home care. They explained that greater co-ordination and streamlining of services would reduce costs and enhance the delivery of patient care. For example, the New Brunswick Health Care Association (NBHA) stated:

> This is not to say that the status quo is the way forward in health care. Indeed the NBHA has long advocated changes in the delivery of health care to move emphasis away from costly hospital care and lend more resources to community-based care involving preventive medicine, community health services and education, home care, and a better management of chronic conditions. In New Brunswick this shift in priorities has been supported by the new provincial government and work is under way in changing health care for the future.
>
> In the long run these shifts will allow for a more cost effective and better health care system. These sorts of transitions require two things: financial stability in the system now to create a climate for planning and innovation and funding to assist in the steps needed to make the transitions for the health care system.

---

71 Employer Committee on Health Care — Ontario, brief, p. 2.

The Committee was also told that some 60% of medical procedures have never been subjected to examination through an evidence-based system of analyzing outcomes and the effectiveness of medical diagnosis and treatment. It has been estimated that, by studying the effectiveness of various aspects of the health care system, we could save several billions of dollars.[72] According to a 1995 joint study by University of Ottawa and Queen's University, cost savings in the health care system can be achieved without negatively impacting on health outcomes:

> Significant cost savings are feasible, with no reduction in health status, by shifting to less costly modes of delivery. Many provinces are already moving in this direction, but the research suggests that much more can be achieved. (. . .) Our findings have uncovered approximately $7 billion in potential cost reductions, which represents about 15 percent of public health expenditures in the country. The savings are concentrated in two main areas — more appropriate use of facilities and services (. . .), and through provinces shifting towards "better practice" benchmarks in other jurisdictions (. . .).[73]

For all these reasons, many witnesses recommended that the federal government focus on evidence-based health care system performance:

> The new health policy thrust from Ottawa also gives new impetus to fight to control and reduce health care costs and allocate funds more effectively. This means not only basic research into the prevention, cause, diagnosis, and treatment of specific diseases, but research into the health care system itself, to ensure the most effective use of our health care dollars. (Council for Health Research in Canada)

Witnesses also expressed the need for our health care system to become more accountable:

> The system must become more accountable to governments and governments must become accountable for their actions on health care to the public. (HEAL)

For the system to become accountable, however, there is a need for more and better information:

> For accountability mechanisms to be effective, reliable data are needed. Therefore, integrated health information systems are essential components of

---

72 Council for Health Research in Canada, brief, p. 4.

73 Douglas E. Angus and al., *Sustainable Health Care for Canada*, Economic Projects, Queens' University and University of Ottawa, 1995, p. 115.

> effective mechanisms. Information systems at the local, regional, provincial/territorial and national levels must encompass the broad continuum of care within the health system. Health system indicators must also objectively reflect systems, processes and outcomes. A long term vision is needed to ensure that we are not limited to existing data sets for measuring and understanding the performance of the health care system. (Canadian Healthcare Association)

> *One-time federal funding is needed to establish a comprehensive national information system providing easy access to a variety of health information including patient and health service data. Such a system could lead to the development of much-needed standard performance measurements, best practice lessons and public report cards.*
>
> **Health Association of British Columbia**

Along with many witnesses, the Committee feels that our publicly funded health care system constitutes a competitive advantage over our trading partners. Canada's health care system clearly is an asset for a healthy, productive and mobile workforce in the new economy. Therefore, we must protect and sustain it. In this regard, the Committee believes that the 1999 federal budget, which committed additional investment into health care over the next five years through the CHST constituted an important step toward stabilizing Canada's health care system and restoring the confidence of Canadians.

We also believe that efforts that can make the system more effective and more accountable must be encouraged. The federal government has made another important step in this respect in the last budget.[74] First, it provided some $328 million over four years to improve the quality and availability of health information and to further develop health information systems across the country. This funding will help provide information for the use of patients, health care providers and governments. The information gathered will be used to report to Canadians on how the health care system is serving them. This will foster greater accountability to the public. The funding will also serve in investing in modern information technology such as "telehealth". Second, the federal government allocated $550 million over a three-year period for health-related research and innovation with the goal of improving diagnosis and treatment of diseases, promoting best practices in health care delivery and enhancing the health and well-being of Canadians.

It is essential to invest in initiatives that aim at maintaining and enhancing our competitive advantage in the field of health care. Along with many witnesses, we feel that this can be achieved by implementing new information technologies, collecting new health-related data on health and health care and assessing the effectiveness of diagnosis methods, treatments and ways of delivering health care. **Therefore, we urge the federal government to continue financially supporting the health information systems and innovation initiatives announced in the February 1999 Budget.**

A number of witnesses told the Committee that smoking is very costly in terms of our publicly funded health care system as well as in terms of our economy. Smoking is the leading preventable cause of premature morbidity and mortality in Canada. The most recent estimates suggest that more than 45,000 deaths annually are directly attributable to tobacco use. Tobacco use

---

74 Minister of Finance, *The Budget Plan 1999*, February 16, 1999, p. 77, 90-98.

costs the Canadian health care system between $3 to $3.5 billion a year. Another $8 billion is due to lost productivity and forgone family income (mainly from absenteeism from work). Witnesses welcomed the recent decision to increase excise taxes on tobacco and to make permanent the current 40% surtax on the profits of tobacco manufacturers. They stressed, however, that only a small proportion of the revenues generated through tobacco taxes goes into strategies to reduce smoking. Some of them recommended that a fund or foundation be specifically created through the implementation of tobacco taxes to educate children and youth on the hazards of tobacco use.

Similarly, many witnesses discussed the economic and social burden of substance abuse. A recent study by the Canadian Centre of Substance Abuse estimates that, in 1993, alcohol and illicit drugs accounted respectively for $1.3 billion and $88 million of direct health care costs. Productivity losses attributable to alcohol amounted to $4.1 billion, while lost productivity due to illicit drugs was estimated at $823 million.

We acknowledge that substance abuse imposes a considerable toll on both the economy and the health care system. Along with witnesses, we welcome the recent increase in tobacco taxes. **We strongly believe that the federal government must continue its efforts to reduce the consumption of tobacco products, particularly those aimed at preventing the onset of smoking among youth. Similarly, measures aimed at reducing and preventing substance abuse must be encouraged.**

Canadians With Disabilities

The Committee heard from many representatives of Canadians with disabilities. They told us that they face barriers that prevent them from fully contributing to society and the economy. First, people living with a disability often incur additional expenses associated with their disability (specialized devices, adaptive equipment, medication, etc.). Second, people who are disabled have a lower than average rate of labour force participation, and this lower rate is not the result of unwillingness or inability to work. As a result, people with disabilities tend to be poorer than other Canadians.

> . . . the extra costs associated with disability related needs impede the ability of many persons from being employed, participating in the life of their community/country and from being able to move away from income support systems. (Independent Living Resource Centre, St. John's, Newfoundland and Labrador)

We were told that people living with a disability want better opportunities to participate fully in our economy and society. Higher labour force participation rate would result in greater independence for people who are

disable, ultimately leading to long-term reductions in social assistance spending.

> Canadians with disabilities want to be equal citizens in this country and we want equal access to Canadian society. People with disabilities want to and must contribute economically, politically, socially and culturally to Canadian society. (. . .) By keeping individuals with disabilities out of the economic and political mainstream, we spend huge amounts of taxpayer dollars . . . (Canadian Association of Independent Living Centres)

> We challenge you to focus on the positive capacity of all citizens as integral to the economic and social growth of our country. We challenge you to focus on our skills and abilities to contribute to economic growth and Canadian society. (Independent Living Resource Centre, St. John's, Newfoundland and Labrador)

The federal government is committed to helping persons with disabilities participate as fully as possible in Canadian society. In the 1996 budget, it doubled the tax assistance for those who provide in-home care for family members with a disability. The 1997 budget increased the amount of tax assistance provided for disability-related costs, including:

- the elimination of the $5,000 limit on the deduction for attendant care expenses for people with disabilities who are in the workforce and require these services to earn their incomes;
- the broadening of the list of expenses eligible for the medical expense tax credit.

Witnesses recommended that existing tax measures that recognize the additional cost of disability be expanded.

> The 1997 budget announcements represented positive and important first steps to improving the status of persons with disabilities . . . we urge this Committee to support significant revisions to income tax legislation to more fairly recognize the extraordinary costs of disability. (Multiple Sclerosis Society of Canada)

The 1997 budget also created the Opportunities Fund, a three-year initiative aimed at generating innovative projects to help persons with disabilities to prepare for, find and keep jobs. With respect to this program, the Committee was told:

> The Opportunities Fund has supported some excellent best practices and individuals have been successful in finding and creating employment . . . it has been instrumental in addressing employment issues on an individual basis. (Independent Living Resource Centre, St. John's, Newfoundland and Labrador)

The Committee believes that sustained economic growth is the best way to enhance the standard of living of Canadians, including those living with a disability. However, we acknowledge the specific needs of Canadians with disabilities and the challenges they face on a daily basis. We believe that when undertaking tax reform, particular attention should be focussed on Canadians with disabilities with the objective of achieving greater horizontal equity.

Further, we feel it is important to improve the prospects of the disabled who want to join the workforce and integrate more fully into the economic mainstream of Canadian society. We understand that this is the purpose of the Opportunities Fund and we fully support it.

Investing in Children

Although we heard from a wide range of witnesses, including individuals, professionals, non-governmental organizations, community groups, as well as labour and business representatives, there was considerable common ground that children should be an important focus of the next federal budget. We were told that we could do more for children in Canada and that we should build a society that provides more opportunities for every child to achieve his or her full potential. These witnesses called for a better, countrywide approach to children's health and well-being.

While children were an important focus of many witnesses, there was no consensus as to the types of programs that best deal with children. Some felt that the best way to help children was to ensure that families had adequate financial resources. Others wanted programs directed towards families and children, delivered by specialist third parties.

We heard that public spending directed at children (and their parents or families) should be viewed as a long-term investment. Investing in children cannot only improve the quality of life and well-being of our young people today, it can also bring a significant "pay-off" in adulthood. Furthermore, public investment in children not only benefits the individual, but society as a whole.

Witnesses told the Committee that we need to invest in our children and to view children as a natural resource representing the future of the country. In the same vein, many witnesses viewed children as "generators of our future wealth". In fact, they are our human capital. Their future productivity — and subsequently that of the country — depends upon a considerable investment today.

> Canada's children are our most valuable resource. Investing in them is the best infrastructure investment we can make. Preparing them for active citizenship and helping them to realize their full potential as contributing and productive members of society will

CTF is mindful of the competing demands for limited public funds and recognizes that a long-term comprehensive and sustainable commitment is required to achieve results. We do not expect that everything can be accomplished in one or two budgets. The federal government can, however, make a commitment that children and youth will become the national priority for the allocation of budget resources. It can act as a catalyst to energize Canadians as we move into the next millennium.

Canadian Teachers' Federation

Investing in children and youth is the key to a strong economy and a healthy civic society.

National Children's Alliance

Canada's children are our most valuable resource. Investing in them is the best infrastructure investment we can make.

Canadian Teachers' Federation

> benefit every Canadian. Our children hold the key to future viability of our publicly funded health care, pension, and other social benefit plans as well as to lower taxes and debt reduction. The more successful they become, the more they will contribute to society and the more secure we will all be that our highly regarded social programs and services will continue to be available and accessible to all Canadians. (Canadian Teachers' Federation)

All of the evidence related to brain growth and development and later educational success points to the fact that young children must the primary targets of our social investment. Canada's place in the new economy and improved productivity will only come from the investment we make now in children's well-being.

Saskatchewan School Trustees Association

By investing in our children today, we are providing them with the opportunity to develop their physical, intellectual and social capacities to their fullest. The Committee was told that children are more likely to become tomorrow's successful and enthusiastic parents, workers and citizens if we make the proper investments today.

In the Committee's view, investing in our children is not only a good social policy, it is also a sound economic policy. If we are to support a knowledge-based economy, we have to assume the responsibility for providing an infrastructure that helps children and youth to become active participants in that new economy. As we approach the millennium, it is our wish that children will grow into young people who are independent, knowledgeable, versatile and creative — in other words, able to take up the many challenges and opportunities that the 21st century will present.

> . . . prosperous, flourishing societies are those that take good care of their human capital, and, from this perspective, one of the most fruitful places to invest public resources is in the early years and in families. (Martha Friendly, Childcare Resource and Research Unit, University of Toronto)

Early Child Development

There are four major stages of child development. These developmental stages are: prenatal to 18 months (foetus and infancy); 18 months to age 5 (pre-school); ages 6 to 12 (elementary school years); and, ages 13 to 18 (adolescence). Each stage offers a key "window of opportunity" for influencing children's development and for helping to overcome earlier disadvantages. There are also key environments that play a crucial role in shaping children's development. These are biological inheritance, family, child care and school, physical and community environments, and society. These environments have different effects at particular stages of children's development. For example, in the stage from prenatal to 18 months, a child is most greatly influenced by her/his immediate family. As a child grows, her/his connections outside the immediate family grow — interaction with the community through pre-school and school experiences, recreation and

supports within the neighbourhood become increasingly important in a child's day-to-day life.[75]

However, a recent study done by a 10 member group co-chaired by Dr. J. Fraser Mustard and the Hon. Margaret Norrie McCain suggests that the early years of a child's development — from conception to age six — are particularly important in setting the base for competence and coping skills that will affect learning, behaviour and health throughout his/her life. On many occasions, witnesses made reference to this new scientific evidence that shows how childhood experiences play an important part in later well-being.[76]

There are critical periods when a young child requires appropriate stimulation for the brain to establish the neural pathways in the brain for optimum development. Many of these critical periods are over or waning by the time a child is six years old. These early critical periods include: binocular vision, emotional control, habitual ways of responding, language and literacy, symbols and relative quantity.

Mustard and McCain, *The Early Years Study*

As shown in the table below, the brain is primed to receive certain kinds of information at different stages in early childhood — preconception, pregnancy, birth, infancy and early childhood. It is during the prenatal and infancy period (conception to 18 months) that the basic "sculpting" of a child's brain takes place. Pre-birth factors such as maternal lifestyle (such as nutrition and use of alcohol and tobacco) influence a child's development. After birth, an infant's relationship with parents and/or caregivers has an important influence on how connections are made among the brain cells. These connections may affect a child's immediate and future cognitive, emotional and behavioural development.[77]

TABLE 1

WINDOWS OF OPPORTUNITY FOR LEARNING

Motor Development	*Prenatal to 5 + years*
Emotional Control	*Birth to 2 + years*
Vision	*Birth to 2 + years*
Social Attachment	*Birth to 2 + years*
Vocabulary	*Birth to 3 years*
Second Language	*6 months to 10 years*
Math/Logic	*1 year to 4 + years*
Music	*3 years to 10 years*

Source: National Council of Welfare, *Healthy Parents, Healthy Babies*, Summer 1997, p. 21.

75 Federal-Provincial-Territorial Council on Social Policy Renewal, *A National Children's Agenda: Measuring Child Well-Being and Monitoring Progress*, Supplementary Discussion Paper, 1999, p. 3.

76 The Reference Group co-chaired by Hon. Margaret McCain and Dr. J. Fraser Mustard, *Early Years Study: Final Report*, April 1999.

77 Federal, Provincial and Territorial Advisory Committee on Population Health, *Towards a Healthy Future: Second Report on the Health of Canadians*, September 1999, p. 75.

There is disturbing evidence that children who do not receive the nutrition and stimulation necessary for good development in the earliest months and years of life may have great difficulty overcoming deficits later. Once the critical periods for brain development are passed, providing the child has not experienced extreme neglect, it is possible to develop the brain's capacity to compensate — but it is difficult to achieve its full potential.

Mustard and McCain, *The Early Years Study*

The development of language is an important example of the infant's capacity to learn. Circuits in the brain representing the sounds that form words are wired in the first year of life, and the months that follow are a time of rapid language development. The more words children hear by age two, the greater will be their vocabulary.[78]

Scientific evidence suggests that connections in the brain of a child appear to develop normally only with proper external stimulation. Children must be stimulated through visual, tactile and auditory and other stimuli to develop fully. It has been shown that factors that impair these crucial stimuli for children during the sensitive periods of neural development could lead to cognitive and behavioural handicaps in later life:

> . . . [The first six years of life are] a crucial time for brain development, a time when the structure of children's brains ("malleability") is strongly influenced by the world around them . . . The quality of care children receive in their early years directly affects the way they think and learn, and has a lasting impact on their future abilities. Unhealthy physical, emotional and social environments during early childhood can have lifelong consequences. In fact, children who have been well cared for have brains that are physically different from those of children who have experienced less favourable conditions in their early years.[79]

Research has also confirmed the necessity of infants and young children to form a secure attachment to a parent or loving caregiver if they are to experience optimal development:

> A secure attachment provides the basis for a child's capacity to develop trust, self-esteem, self-regulation, self-soothing and relationships with others. It influences language and cognitive development and gives infants the confidence they need to explore the world. Secure attachment has also been shown to establish connections in the brain that can reduce anxiety and allow the brain to take in new stimuli.[80]

Although scientific research lends weight to arguments about making substantial investments in the early years of children's lives, we note that this message is not new. Most Canadians, particularly parents, already know instinctively that providing a stimulating, loving, supportive and safe environment for children in their early years makes an enormous difference in

---

78 National Council of Welfare, *Healthy Parents, Healthy Babies*, Summer 1997, p. 21.

79 Federal-Provincial-Territorial Council on Social Policy Renewal, *A National Children's Agenda: Developing a Shared Vision*, p. 2.

80 Federal, Provincial and Territorial Advisory Committee on Population Health, *Towards a Healthy Future: Second Report on the Health of Canadians*, September 1999, p. 78.

their life outcomes. Children who are well-cared for today are more likely to be healthy, responsible, productive and caring as adults, contributing to Canada's economy and society. Early childhood intervention is an investment, with the payoff being reduced expenditures in future years.

Despite this knowledge, governments and communities tend to commit greater financial investments later in the life cycle, thus missing the most critical time to promote human competence and potential.

> Even with the new knowledge that we have about the opportunities provided by early childhood, Canadians still focus considerable resources on fixing problems after they occur. We certainly cannot ignore the importance of services addressing children's needs later in life. However, as much as possible, we need to promote the ongoing well-being of children from the start of their lives.[81]

We have learned that the most beneficial focus of our efforts has been early intervention. Creation of a healthy, socially nurturing, and intellectually stimulating environment for children before they reach compulsory school age has the greatest impact on their future academic success. Not surprisingly, given the need to ensure Canadian youth will be able to participate in a knowledge-based economy, most regard early intervention programming as an investment.

Saskatchewan School Trustees Association

The new scientific evidence provides hope for a renewed social infrastructure that makes commitment to children's early lives. Rather than waiting to deal with problems after the fact, the Committee believes that we should be trying to prevent them from arising in the first instance. We should take a forward-looking approach to the matter. Preventing problems from arising would be a major step forward in the Canadian social infrastructure. Prevention will result in substantial savings for society as a whole in the form of lower health care costs, fewer school drop-outs, a more productive labour force, and less delinquency and crime. In this regard, it is like an investment with a small expenditure today reaping large benefits in the future.

> The benefits of good early childhood education programs take two forms: the human benefits to the children involved, and the economic benefits to Canadian society. The human benefits are largely self-evident. Children who are cared for in a loving, nurturing and stimulating environment, whether in the home or in formal daycare setting, grow into happier, healthier adults. Studies (. . .) have clearly illustrated both the human and economic benefits of quality pre-school programs. As the children involved in the study grew into adulthood, those who had the benefits of such programs experienced fewer health problems, less involvement with the criminal justice system, and greater economic success. The human implications are that these individuals experienced a better quality of life than would have otherwise been the case. The economic implications have been quantified; it is estimated that for each dollar spent on quality pre-school programs, seven dollars can be saved in later years by the health, justice and other social services systems. (Manitoba Association of School Trustees)

81 Federal-Provincial-Territorial Council on Social Policy Renewal, *A National Children's Agenda: Developing a Shared Vision*, p. 2.

The federal government has recognized the long term social and economic benefits of early child development initiatives when it stated in the Throne Speech:

> Because of the changing nature of the world economy, the prospects for a high quality in any country will depend — as never before — on having a population that is adaptable, resilient and ready to learn throughout life. The foundation for this is laid in the very first years. No commitment we make today will be more important for the long-term prosperity and well-being of our society than the commitment to invest our efforts in very young children. Parents and families have the primary responsibility for the care of their children. But all society must work together to ensure that our children develop the abilities to succeed.

Accordingly, the federal government announced that it will initiate seven different measures that address the specific needs of children and their families. These measures are summarized in the table below:

SPEECH FROM THE THRONE
SPECIFIC MEASURES FOR CHILDREN AND FAMILIES

- *Increasing maternity and parental leave benefits under Employment Insurance from the current maximum of six months to one year (to be in effect no later than January 2001);*
- *Making federal workplace policies more family friendly;*
- *Providing further tax relief (multi-year tax reduction): in his economic and fiscal update, the Finance Minister indicated that while tax reduction must benefit all Canadians, it must first benefit those who need it the most, — middle and low-income earners, specially families with children;*
- *Modernizing family law in collaboration with provinces and territories;*
- *Developing under the National Children's Agenda a federal/provincial agreement for early childhood development, by December 2000;*
- *Investing further in the National Child Benefit by 2002;*
- *Strengthening learning opportunities through an expanded School-Net.*

But public investment in children is not enough. Governments cannot do it alone:

> It does, indeed, take an entire village to raise a healthy child. Community action is an important complement to government action. Neighbourhoods must be safe and supportive of healthy child development. The private sector must also be involved, since the time/income

dynamic has important implications for parenting capacity. When governments, businesses, communities, families and young people work together, that children and youth will have the best chance of growing up to be healthy, productive adults.[82]

Why do we need a system of Early Child Development Services?

- ***Supports healthy child development.*** *Regardless of a parent's employment status, early child development opportunities benefit all children, and help them realize their full potential at each stage of life.*
- ***Fosters economic growth.*** *Early child development services enable parents to work or enter training so they can access employment opportunities. Flexible, reliable, affordable services help parents maintain their employment.*
- ***Creates jobs.*** *With government investment, early childhood development services will create thousands of jobs over the next 10 years.*
- ***Reduces child poverty.*** *Affordable early childhood development services allow parents to participate in the workforce and earn resources to support their children.*
- ***Invests in the future workforce.*** *High quality, accessible early childhood development services provide children the best possible start in life so they can become skilful, competent workers. It is more cost-effective for government to invest in high quality services now, rather than paying later for the negative results of low quality or non-existent services.*

Source: Ontario Coalition for Better Child Care Network, Brief, p. 2-3.

82 Federal, Provincial and Territorial Advisory Committee on Population Health, *Towards a Healthy Future: Second Report on the Health of Canadians*, September 1999, p. 90.

The economic and fiscal reality of First Nations is quite different from that of the rest of Canada. The average level of unemployment of First Nations is around 50 per cent. Average income is only 60 per cent of the national average. While Canada was ranked by the United Nations as having the highest quality of life in the world, the same standard of measurement applied to First Nations, ranks them 63rd.

Assembly of First Nations

Over the past decade we have also learned that a growing number of Canadian families are living below the poverty line. The reasons are varied and complex but, because these families are unable to benefit fully from the Canadian economy, many children live in environments that are not healthy, socially nurturing or intellectually stimulating. Unfortunately, a substantial proportion of children in some communities is destitute, malnourished and hopeless. Social maladjustment in kindergarten, youth crime in the middle years, and teenagers leaving school to live on the streets, are symptoms of communities and a nation gone very wrong.

Saskatchewan School Trustees Association

Child Poverty

While Canada has an enviable worldwide reputation as a desirable place to live, it seems that not everybody receives the full benefits of Canada's success. Our economy has shifted from predominantly full-time jobs that typically lasted an entire life to more frequent job change, increased demand for retraining and more contract, part-time work and self-employment. Changes in family structure has resulted in a growing number of one-parent families. As a result, and despite economic growth, the proportion of families with children living on low income has increased in the past decade. Furthermore, First Nations and Inuit children, wherever they live in Canada, are more likely than other Canadian children to live in poverty.

Few witnesses disputed the direct and devastating consequences of living in poverty. Research shows that poverty compounds the challenges and stresses that all families face, and this has a powerful impact on children. A study by economist Dave Ross using 31 different health, social and developmental indicators showed that as family income falls, the likelihood that children will experience problems increases. Rates of poor health, hyperactivity and delayed vocabulary development have been shown to be higher among children in low-income families than among children in middle and higher-income families. Therefore, poverty increases health risks. It can impair the ability of families and communities to nurture children. It can lower children's achievements in school. Overall, poverty can have a negative effect on children's development.

However, this same study also suggests that poor children are not always disadvantaged. Similarly, disadvantaged children are not always poor. In fact, there are children in all socio-economic groups who do not do well. This finding has several implications:

- There is no economic cut-off point (i.e. income level) above which all children do well.
- Income is not the only factor in healthy child development. Other factors such as positive parenting and access to early developmental programs also affect development.
- Initiatives such as positive parenting, nurturing neighbourhoods and access to early child development programs may counteract the effect of poverty on children.

- Because of the large middle class in Canada, the number of children not doing as well as they might is greatest in the middle-income group.
- Programs and policies aimed at positive child development and parenting must apply to all sectors of society and all income groups.[83]

Overall, many witnesses felt that income support and integrated services for the child and family should be pursued simultaneously. Factors such as positive parenting, quality child care, health and social supports and other community influences acts as protective factors that can counteract or reduce disadvantages, including those associated with low income. To be effective over the long term, we were told that income support must be combined with measures that address other needs of low-income families such as childcare, health benefits and social services.

In this perspective, the federal/provincial/territorial governments have already taken some significant steps in terms of both income support and early childhood interventions, namely through the National Child Benefit and the National Children's Agenda.

The National Child Benefit (NCB)

The Committee believes that a strong economy that fosters opportunity for all is the best way to improve the economic well-being of families and reduce child poverty. Sustained employment is the key to a secure family income. Many families, however, continue to need additional financial support for raising their children even during periods of strength in our economy. **For this reason, the Committee supports the National Child Benefit and recommends that it continue to play an important role in assisting lower-income families with children.**

The NCB was implemented on July 1st, 1998. It is a federal/provincial/territorial (except Québec) approach that has been designed to help prevent and reduce the depth of child poverty, promote attachment to the labour market and reduce government overlap and duplication. It combines federal investments in child benefits for low-income families with provincial/territorial investments in services and benefits for these families. Under the NCB, parents on welfare are supported as they move to jobs with better access to essential benefits and services for their children, while parents already working in low-income jobs now get much needed support to stay employed.

Under the NCB, the federal government has increased the income support it provides to low-income families with children. Provinces and territories

83 The results of this study are summarized in Federal, Provincial and Territorial Advisory Committee on Population Health, *Towards a Healthy Future: Second Report on the Health of Canadians*, September 1999, p. 85.

have adjusted the support they provide to families with children through social assistance, and all of them have invested in new and enhanced benefits and services for low-income families with children. Key areas of support include: earned income supplements, childcare, early childhood and children-at-risk services and supplementary health benefits. Since the basic benefit for children is not tied to the social assistance system, parents can find it easier to move into and stay in employment.

As an initial contribution to the NCB, the federal government committed $850 million per year to increase child benefits for low-income families with children. In 1998-99, this additional investment resulted in an increase in benefits for about 1.4 million Canadian families with 2.5 million children. In order to do so, the government combined two existing programs — the Child Tax Benefit and the Working Income Supplement — into one benefit, the Canada Child Tax Benefit (CCTB). The new CCTB has two main elements: the base benefit, which is paid monthly to 80% of all Canadian families with children, and the National Child Benefit (NCB) Supplement, which goes to low-income families with children. The CCTB amount payable to each family is determined through the income tax system based on the previous year's family income and is automatically adjusted in July of each year.

As part of the 1999 federal budget, the benefit levels and structure of the NCB initiative were announced. Then in July 1999, funding for the NCB was increased by $425 million and an additional $425 million in July 2000. The maximum level of the NCB Supplement was increased by a total of $350 per child (by $180 in July 1999 and an additional $170 in July 2000). As a result, maximum annual Canada Child Tax Benefit amounts increased to $1,805 for the first child and $1,605 for each additional child. As their role in the NCB, participating provinces/territories will reinvest welfare savings to help meet local needs and priorities. In 1999-2000, it is expected that they will spend over $400 million to enhance existing programs and services for low-income families and their children. **In the last Throne Speech, the federal government indicated its intention to make a third significant investment in the NCB in 2001. The Committee strongly supports this enhancement.**

The Committee is convinced that the recommendations it has made in the previous chapter with respect to tax relief and the Canada Child Tax Credit (lowering the benefit reduction rate) will help low and middle-income families.

Although the National Child Benefit along with tax relief can make significant differences in children's and families' lives, they are not enough on their own. At their 1997 Conference, Canada's Prime Minister, provincial Premiers and Territorial Leaders reaffirmed their commitment to a new co-operative approach to address the needs of children through a National Children's Agenda.

The National Children's Agenda

Over the past five years, most provinces have begun to develop more comprehensive approaches to serve children and families. The federal government is also involved in a number of initiatives. Further, the National Children's Agenda could help to unite all this work and inspire new solutions.

In the 1997 Throne Speech, the federal government announced a "National Children's Agenda" which would integrate federal/provincial/territorial policies and programs targeted to the well-being of Canadian children. In May 1999, federal/provincial/territorial governments (with the exception of Québec) released a discussion paper entitled: *A National Children's Agenda: Developing a Shared Vision*. Throughout the summer, Canadians were invited to respond to this report and to share their views on how to better meet the needs of children.

The Vision document establishes four specific measurable goals: children should be healthy physically and emotionally; safe and secure; successful at learning and, socially engaged and responsible. It also highlights six interrelated areas where efforts can have positive effects on children. These include:

- Supporting parents and strengthening families.
- Enhancing early childhood development.
- Improving economic security for families.
- Providing early and continuous learning experiences.
- Fostering strong adolescent development.
- Creating supportive, safe and violence-free communities.

The National Children's Agenda does not propose a specific policy or set of policies. The role of the federal government and that of the provinces/territories still have to be clarified. However, many witnesses believed that this Agenda can provide the federal government with the channels to work with other levels of government and communities across our nation in confronting the issues related to the well-being of children. The Committee was told that:

> We hope your government will seize the opportunity provided to do so, and therefore take the actions needed to strengthen the social structure of our communities. (Nova Scotia School Boards Association, letter)

At their annual conference on August 11, 1999 provincial Premiers and territorial Leaders have identified children's issues as a top priority. They reminded us that they have already taken their own steps in addressing the key children's issues within their jurisdictions. With respect to a new federal

children's initiative, they noted that they expect the federal government will meet its commitments under the Social Union Framework. Accordingly, they expect that the federal government will undertake early and meaningful collaboration with the provinces/territories on any federal plans for new children's programs so that new federal initiatives are not duplicative of work already underway in their jurisdictions.[84]

Governments across Canada currently fund and/or provide a wide range of legislative, policy and program supports aimed at ensuring children have the best possible opportunity for a good start in life. Beyond providing universal health care and education, a variety of initiatives support various aspects of children's lives. Examples of support include income programs for families with children; extended health benefits; support for early child development, including prenatal programs, home visiting programs for children and new mothers, pre-school programs and activities, childcare, etc.; child protection; recreation services; and services to young offenders. Several non-governmental organizations, community groups and the private sector is also involved in providing programs and support to children.[85]

The federal government has already been involved for a number of years in programs and initiatives aimed at early child development: Among others they include:

- Community Action Program for Children: This program was announced in May 1992. It provides funding to community groups to help them establish and deliver services that address the developmental needs of at risk children aged 0 to 6. Services incorporate both education and intervention activities, with the main focus on prevention. Examples of services include: parent/family resource centres, child development centres, parenting education and infant stimulation. Target groups are: children living in low-income families; children living in teenage-parent families; children experiencing developmental delays, social, emotional or behavioural problems; abused and neglect children; people who have, or are likely to have, at risk young children. The program is jointly managed by the federal government and provincial/territorial governments. While the overall objective of the program is the same across the country, priorities for action are determined by provinces/territories and, as such, differ from jurisdiction to jurisdiction based upon the local situation.

- Canada Prenatal Nutrition Program: This program was announced in July 1994. It is delivered through the Community Action Program for Children and is also managed jointly by federal/provincial/territorial governments. The program is designed to provide food supplementation, nutrition counselling, support, education, referral

84 Annual Premiers' Conference, News Release, August 10, 1999.

85 *A National Children's Agenda: Measuring Child Well-Being and Monitoring Progress.*

and counselling on lifestyle issues to pregnant women who are most likely to have unhealthy babies. The program's targets include: pregnant adolescents, youth at risk of becoming pregnant, pregnant women who abuse alcohol and other substances, pregnant women living in violent situations, off-reserve Aboriginals and Inuits, refugees, pregnant women in isolation or not having access to services.

- Aboriginal Head Start: This program was established in 1995 to help enhance child development and school readiness of Indian, Métis and Inuit children living in urban centres and large northern communities. An expansion of the Aboriginal Head Start program for First Nations communities was announced in October 1998. The reserve initiative is designed to prepare young First Nations children for their school years, by meeting their emotional, social, health, nutritional and psychological needs. The purpose of the program is to encourage the development of projects that comprise the following program elements: culture and language, education, health promotion, nutrition, social support and parental involvement. It encourages the development of locally controlled projects in First Nations communities that strive to instil a sense of pride, a desire to learn, provide parenting skills, foster emotional and social development, increase confidence, and improve family relationships. It also assists parents in enhancing their skills which contribute to their child's healthy development.

Overall, governments in Canada already invest a considerable amount of money on many programs related to childcare and early childhood education. While many of these programs and services are excellent, we were told that services have often been developed on an ad hoc basis. In many cases, there is limited co-ordination and integration of programs and services. However, it is recognized that there is no single program or service that provides a complete response to early child development. Problems that children and families face may be complex and therefore require more comprehensive solutions.[86]

The Committee feels that, while new resources may be needed in some cases, we should first attempt to make progress by building on the work that is already occurring across the country. Accordingly, this can be effectively undertaken as part of the National Children's Agenda under which governments are proposing to explore approaches to enhance existing efforts and to share information on effective practices. This is very much consistent with the approach we took last year with respect to health care — i.e. determining best practices, establishing the root causes of social problems, evaluating current programs and practices, etc.

The National Children's Agenda also aims at measuring child well-being and monitoring progress of the various initiatives. Measuring child well-being and monitoring outcomes of programs will tell us how we can be most

86 Government of Saskatchewan, *Saskatchewan's Action Plan for Children*, April 1999.

Accountability depends on our ability to link outcome measures for children and youth to policy changes. Information and research are key to monitoring whether the situation for children and youth in Canada is improving or deteriorating. It is therefore critical that Canada work towards developing:

a National Research Agenda
a National Mechanism for Reporting and Monitoring of Children's Well-being.

National Children's Alliance

effective in helping children to achieve their full potential. Since federal and provincial governments already offer a wide range of programs and services for families and children, it makes sense to share information on what works and to build on the successful experiences of governments and the non-governmental community.

Since early child development encompasses various phases — preconception, prenatal period, infancy and toddler/pre-schooler years — witnesses recommended that different programs be provided at different stages (although some programs may overlap). The following table summarizes the variety of initiatives aimed at early child development that were identified by witnesses through our hearings:

TABLE 2 EXAMPLES OF EARLY CHILD DEVELOPMENT INITIATIVES	
Preconception	▶ Sexual health and family life education (particularly for adolescents) ▶ Knowledge and information on planned pregnancies ▶ Healthy lifestyle choices, including tobacco use/reduction, alcohol and other drug use ▶ Nutrition/diet ▶ Physical activity
Prenatal	▶ Healthy lifestyle choices, including tobacco use/reduction, alcohol and other drug use ▶ Nutrition/diet ▶ Physical activity ▶ Promoting breastfeeding ▶ Opportunities for parental training and skill development
Infancy	▶ Support to breastfeeding mothers ▶ Programs for low birth weight babies ▶ Home visits ▶ Prevention programs with respect to SIDS, tobacco, violence, safety ▶ Nutrition/diet ▶ Information on parental knowledge and child development, particularly for young parents ▶ Positive stimulation for babies ▶ Community-based services for parents and children ▶ Expanded maternity/parental benefits so that parents can spend more time with their babies
Pre-School	▶ Early childhood education ▶ Childcare ▶ Community-based programs for children at risk

The Committee was told that the extension of parental leave will be of great benefits to all families, including those who have a child with a disability. Some recommended that the child care deduction be enhanced for families who have a child with a disability by increasing the deduction and by extending the age limit to 18. Other witnesses recommended that the national

child benefit be increased to $4,200 per year and be available to all modest and middle-income families.

It's time to say you don't have to be poor to have the federal government care about kids.

Marc van Audenrode

In response to the Speech from the Throne, the Prime Minister challenged his provincial and territorial counterparts to have in place, by December 2000, an agreement consistent with the Social Union Framework that would strengthen community supports for early child development. **The Committee believes that we must build upon the National Children's Agenda and, accordingly, we recommend that the federal government pursue the development and implementation of the National Children's Agenda.**

CHAPTER 5:
THE EMERGENCE OF THE NEW ECONOMY

- *It took 38 years before 50 million people became radio users.*
- *Television took only 13 years to reach the same milestone.*
- *Once the Internet became a public vehicle, it took only four years to reach 50 million users.*
- *Internet traffic doubles every 100 days.*

What is the New Economy?

Only a few witnesses addressed the Committee's questions regarding the new economy. This may be explained by the fact that the concept of a "new economy" is hard to define and that there is not yet a consensus on what it really means. For the Committee, however, the new economy encompasses both the globalization and the computerization of all production processes and means of exchange, a fundamental transformation that is reshaping the way we work and the way we do business in both domestic and international markets.

The new economy has been described using terms like globalization, digitization, networking, knowledge, connectedness, innovation, and productivity.

Natural Sciences and Engineering Research Council of Canada

This "new economy" is mainly about information and communications technology (ICT), and the way in which it effects Canadian society. The old "new economy" was based on factories, assembly lines, smokestacks and, sometimes, workplace drudgery. This manufacturing economy offered a clear jump in living standards compared to the agricultural economy that preceded it, and came about as a result of significant technological change. Today's new economy and that of the 21st century is the result of technological change, but it will be change of a completely different sort. Technology will be an increasingly important productive input, more so than capital or labour. As the Information Highway Advisory Council noted:

> [I]n a knowledge-based economy, ideas and information effectively overshadow physical goods and services as the primary units of production, distribution and consumption.[87]

It is more and more common to read and hear about the impact that the new economy is expected to have on the Canadian economy. It will affect productivity, family incomes and the make-up of our existing economy. Some

87 Information Highway Advisory Council, *Jobs and the Knowledge-Based Economy*, Ottawa, April 1997, p. v.

see it as the basis for a "golden era" of growth, providing exciting job opportunities and a high standard of living.

> Surely we all share the same goal: a strong economy and a healthy society that provides an enviable standard of living and superb quality of life for all of our citizens. The challenge is to identify what all of us have to do to achieve that goal within an intensely competitive and rapidly changing world — and then to take action. If we succeed, we must succeed for all Canadians. If we fail, all Canadians will pay the price. (Business Council on National Issues)

Without a doubt, this new economy will also affect the very nature and scope of government and the essential character of our existing and new industries. It will affect our entire society as well. We are now in a transition period from one era to another.

The Committee was told that, in order to gain the full benefits of the new economy, is it important to act as quickly as possible:

> It cannot be forgotten that the new economy evolves very rapidly, at the notorious Web speed. Failure to act now will inflict damage which will be difficult or impossible to repair. (Canadian Advanced Technology Alliance (CATA))

Technology is a public good, and its development is characterized by economies of scale. As a public good, it can be used by one party without diminishing the amount that is available to others. Moreover, it is difficult to exclude others from using, copying or modifying the technology produced by an individual or firm, although intellectual property rights do offer some protection. These characteristics will profoundly affect the structure of the economy. Economies of scale promote large firms. Public goods characteristics encourage greater scope in firms so as to allow them to capture a large portion of the benefits of those public goods.

[A]s we approach the twenty-first century there is a new economy, one based on global markets, and increasingly reliant on knowledge and innovation as the critical factors in productivity, growth and competitive strength.

National Research Council of Canada

Technological innovations are driven by the amount of human capital (total knowledge, training and education) and entrepreneurial capital (the willingness to take risk and the ability to make profits) in a society. The dramatic changes in the Canadian economy are witness to this. What was once a resource-based economy is becoming a knowledge-based economy. The changing characteristics of the Canadian labour force demonstrate this. The vast majority of the new jobs are being created in the services, knowledge and new technologies sector.

The Transformation of Canadian Labour Markets

> *In the end, the location of the new economy is not in the technology, be it the microchip or the global telecommunication network. It is in the human mind.*
>
> Alan M. Weber*

* Quoted in "The Emerging Global Knowledge Economy" by Peter Schwartz, Eamonn Kelly and Nicole Boyer, in *The Future of the Global Economy: Towards a Long Boom?* OECD, 1999, p. 81.

According to Statistics Canada, 60% of the jobs created in the 1990s were professional or managerial, with virtually no growth in blue-collar jobs. New technologies are booming in Canada. There are now, for example, between 650 and 1,000 multimedia firms in Canada with more than 17,000 employees in total, most between the ages of 27 and 32. The typical modern-day worker has the skills to manage, manipulate, communicate and/or produce information.

- *Workers in information technology industries not only earn more than their private-sector counterparts, their wages have been growing at a faster pace.*
- *In 1980 information technology spending accounted for approximately 15% of business equipment spending. Today that figure is closer to 45%.*
- *It is estimated that the information technology sector has caused the American inflation rate to fall substantially. It would be almost twice what it is without the information technology sector.*
- *The information technology sector now accounts for about 14% of American growth, more than twice what it was in 1991.*
- *In six years, the price of microprocessor computing power fell by a factor of 67. What now costs $3.50 cost $230 in 1991.*

We no longer live in a world where traditional relationships based on social, political, and economic factors are enough to define communities and countries. The challenge for people is to adapt to these new conditions.

Canada Foundation for Innovation

This transformation will have a profound effect on our economy, society and our government. It results in new uncertainty. "[T]he shift to an information economy is redefining how we need to think about both good times and bad. We don't know how to measure this new economy, because the productivity of a decision-maker is harder to grasp than the productivity of someone bolting together cars."[88]

This development is not new, but its scope is. Canadian economist Richard Lipsey argues that:

88 John Browning and Spencer Reiss, "Encyclopedia of the New Economy," *Wired*, March 1998, p. 106.

Lester Thurow has said that in the new knowledge economy, 'the ability to open up the new and close down the old becomes the most important ingredient of economic success'.

Business Council on National Issues

> What we are experiencing is not without historical precedent; instead, it is a typical upheaval associated with the transition phase of the introduction of a new, pervasive technology.

These upheavals are also characterized, then as now, by social changes and uprooting from the status quo. It is marked by stress, and is for many lacking the skills for the new economy a painful transition, but "insofar as the past is any guide," it should lead to sustained economic growth.[89]

How Can We Promote Technological Change and Productivity Growth?

> We agree with the Government's thrust, as outlined in the Throne Speech, that moving forward we must continue to improve Canada's information infrastructure to support the exchange of ideas and the conduct of business over computer networks, connect Canadians to the information highway and accelerate the adoption of electronic commerce. (Canadian Wireless Telecommunications Association)

Long-term growth is fuelled by technological change, which, in addition to making existing production more efficient, allows for the creation of new products with new technologies. It creates new and better jobs even as it destroys old ones. There is, however, one important distinction between this new economy and previous new economies. Information and communications technologies are not only creating new products, they are creating a whole new infrastructure within which the economy operates.

In our knowledge-based economy, productivity gains are a function of the development of human capital, which in turn is the engine for technological advance. But economists have come to realize that the rate of innovation is determined endogenously in the economy. Putting in place the right economic incentives and conditions can increase the rate of technological change and, hence, productivity levels. In that sense, the guiding principles outlined in our recent Report *Productivity with a Purpose* are essential elements of a proper economic environment: eliminating deficits and reducing debt, maintaining low inflation, encouraging investment, promoting competition through trade, supporting early childhood development, eliminating unnecessary regulations, promoting education and R&D, and reforming and restructuring the tax system. Virtually all experts believe that these factors will beneficially affect the rate of innovation in an economy.

[89] Richard G. Lipsey, *Economic Growth, Technological Change and Canadian Economic Policy*, Vancouver: C.D. Howe Institute, November 6, 1996, p. 28.

Human and physical capitals are not enough, however. What is needed is an environment in which that capital can thrive. Flexibility and the willingness to adapt to change are characteristics that are vital to the new economy, due to its rapid pace of change and its unpredictable nature.

Key government policies according to Professor Richard Lipsey:

- *Macro policies must provide a stable background in terms of low inflation, reasonable investment incentives, a stable fiscal regime with either balanced budgets or sustainable deficits and micro policies without excessive disincentives, such as high marginal rates of taxation, high indirect labour costs, and excessive regulatory burdens. Among other things, this requires the scaling back of entitlements that seemed supportable in the post-war era.*
- *Appropriate market supporting institutions must be provided, such as the justice system, property rights, freedom of contracts, ensuring a sound money and a well-functioning financial system, and providing quality control product standardization and consumer protection.*
- *An efficient infrastructure is also required. The realization that technological dynamism is needed in these areas, as well as the growing belief that production should be left to the private sector except where there are compelling reasons for public control, has led to the privatization of many government-owned infrastructure activities, particularly in the United States and the United Kingdom.*
- *Human capital must be created for the new knowledge society, a need which extends from providing the substantial minimum level below which people become unemployable, to higher education, to providing adequate staffing for private — and public — sector R&D.*
- *Strong support for R&D, including assistance in the creation of emerging technologies in the pre-commercial stage. For example, much of the early basic US research on biotechnology and nanotechnology was done, and some still is being done, in publicly funded universities and research labs.**

* Richard G. Lipsey, "Sources of Continued Long-Run Economic Dynamism in The 21st Century", in *The Future of the Global Economy: Towards a Long Boom?* OECD, 1999, pp. 64-5.

Human capital comes in many forms and it is possessed by all Canadians, and government can do more to promote its development. There is more, however. An economy can only succeed if **all** its citizens — the best educated, aboriginals, immigrants, children living in lower-income families, etc. — have the opportunity to exploit their full potential. Pockets of citizens

left behind in the new economy do not reflect a failure of social policy so much as they reflect a failure of economic policy.

1. Mustard's study in relation to the new economy

The early years study co-chaired by Mustard and McCain also discussed the necessity to improve the capabilities of our future workforce if we are to successfully face the challenges of the new economy. In their view, early child development programs can play an important role in this regard:

> There is general agreement that improving the capabilities of the future population is essential to meet the challenges of technological change and globalization. But no one can predict what the specific future demands will be for Ontario's workforce 25 years from now. This means we must prepare a flexible, competent population that is able to adapt to change. The early years period has to be at least of equal importance as education and post-secondary education as a priority for investment by the public and private sectors of society.[90]

2. Basic research

Consideration must also be given to long-term basic research. This curiosity-driven research is primarily conducted in universities and large corporations. New theories, ideas and concepts emerging from basic research then form the basis for entrepreneurial development of new products and product innovation — this is the stage of applied research.

CATA would like to congratulate the Government on its commitment to R&D. The Canada Foundation for Innovation and the Canadian Institutes for Health Research increased budgets for the granting councils and their recently announced funding for 2,000 university research chairs are significant measures to support scientific research in Canada. These are the types of program which stimulate the new economy and strengthen Canada's position in the world.

CATA Alliance

Fundamental long-term research funded by a variety of government bodies and large corporations helped develop many new products, and even industries. The following quote demonstrates how basic research built the foundations for the development of today's high-growth industries, and how the results can have an impact far into the future.

> When Albert Einstein pursued his interests in theoretical mathematics in the early part of this century, he wasn't trying to develop the computer chip industry or the laser industry. But his curiosity-driven research laid the foundations for these industries. Likewise, the scientific breakthroughs achieved by British scientist Fred Griffith in 1928, American scientist Oswald Avery in 1944 and the British team of James Watson and Francis Crick in 1953 paved the way for the biotechnology revolution. But none of these scientists envisaged a biotechnology industry as they pursued fundamental research.[91]

Large corporations in the United States are supportive of fundamental research. American corporations spent $133 billion in 1997 on research and

---

90 Mustard and McCain, *The Early Years Study*, p. 61.

91 David Crane, "Basic Research Key to Creating Knowledge," *The Toronto Star*, August 7, 1999.

development, while the U.S. government also contributed $63 billion with the intent to provide a base for future technology development.

It is worth mentioning, however, that the Canadian government is also actively promoting investment in R&D. In addition to generous tax incentives, the government provides programs like Technology Partnerships Canada (TPC). A recent partnership deal with IBM in software development shows the Government of Canada's awareness of these issues. Last July, Minister of Industry John Manley announced a $33 million investment, combined with a $125 million investment by IBM, to fund fundamental electronic commerce R&D in Canada.

> In addition to the TPC investment, the Government of Canada and IBM Canada have also signed an Investment Framework Agreement. The Agreement sets out ways in which IBM and the Government of Canada can continue to work together to strengthen Canada's position in the information and communications technology sector. These include further collaboration in the ongoing development of Canada's Electronic Commerce Strategy, as well as the promotion of e-commerce to small business, using existing programs to strengthen Canada's university-based research infrastructure, and providing job and work experience opportunities for Canadian youth.[92]

The way SMEs conduct business will no doubt change dramatically in the next century. The electronic age is here to stay and will continue to change the day-to-day operations of a small business.

Canadian Federation of Independent Business

3. E-commerce

The development of electronic commerce is crucial to the future of the Canadian economy. With its evolution proceeding rapidly, there is a sense of urgency surrounding the need for Canada to respond to these challenges. This is precisely the message that the Committee heard from the Canadian e-Business Opportunities Roundtable. In the view of that Roundtable,

> Building a strong position in e-business . . . is a key underpinning of competing in a global, knowledge based economy. Canada is facing a choice. We can capitalize fully and quickly on the e-business opportunity or remain complacent with our modest success and risk falling behind other knowledge-based economies.[93]

---

92 "TPC Investment Helps Put Canada in the Forefront of E-Commerce Development" Industry Canada: Press Release, July 6, 1999.

93 Canadian e-Business Opportunities Roundtable, submission, November 9, 1999, p. 3.

Canada is, in many respects, a leader in e-commerce policy development. We have developed and allow:

- Voluntary business guidelines for consumer protection.
- Privacy guidelines to protect personal information.
- Digital signatures in electronic records.
- A federal government infrastructure policy.
- A commitment by Canada to a technology neutral tax regime.

Moreover, the federal government has just announced a commitment to build a high-speed network, to make Canada the most wired country in the world, and put it ahead of the United States and most other countries. Government departments would be linked to the public via the Internet, and organized in ways that are useful to the public and not the department — services would be bundled around life events such as births, marriages or the start of a business.[94]

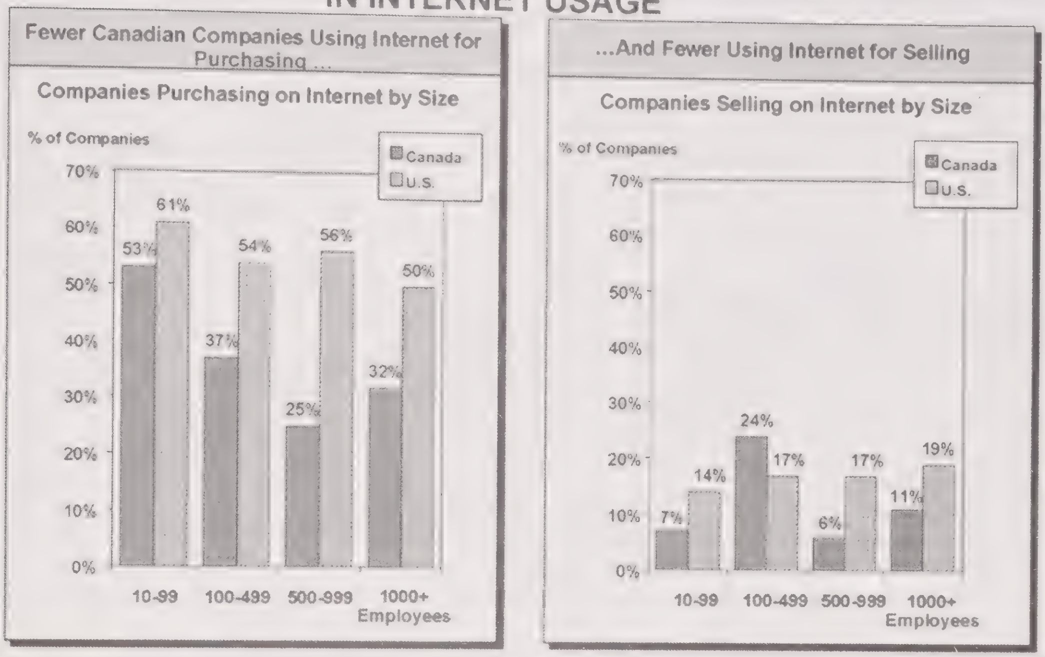
Canada is already a leader in the development of infrastructure and access. We are undertaking a research initiative (CA*NET3) which has more than 15 times the bandwidth of comparable American initiatives. But Canada is still lagging the United States in e-commerce, not because of our lack of infrastructure but because of our failure to use it to its full potential. According to the Boston Consulting Group, Canada's Internet providers do a good job in providing access, but not in value-added services such as web hosting and web design. It is these latter services that make or break e-commerce opportunities. And this might help to explain why Canadian companies lag their American counterparts in Internet usage. The following two charts, provided to the Committee by the Boston Consulting Group, demonstrate that Canadian firms, of all sizes, lag in their American counterparts in both sales and purchases via the Internet.

---

94 "Canada to become 'most wired': Government to spend billions on project", *Ottawa Citizen*, November 28, 1999.

Business-to-Business

CANADIAN COMPANIES LAG U.S. COMPANIES IN INTERNET USAGE



Source: IDC report on "Canadian Internet Commerce: A Comparative Analysis on the E-Commerce Activity of Canada and the U.S."

4. Concerns about access

Information and communications technology (ICT) will allow a transformation of a wide variety of activities, including the provision of health care, fostering productivity enhancement. Witnesses rarely expressed concern about the existence of these new technologies; instead they were concerned about access. Some regions and some segments of the population might be disadvantaged in this regard. Rural areas often do not have the most up-to-date communications facilities that urban centres possess.

The Committee notes that the Government of Canada has made a commitment to facilitate access to networks and government services via the Information Highway. Our success in the new economy will depend upon a population committed to learning, adapting to change and being at ease with the technologies of the digital economy. While many conditions must be met before we can succeed in the new economy, access is important because it is a pre-requisite condition. The following map (Boston Consulting Group) demonstrates that Canada's major cities are well connected, many with high-speed technology. More remote communities still rely on relatively slow connections.

Projects such as the CSBA/SchoolNet consultation on integrating information technology into learning provide an excellent avenue for discussion and feedback on what is being done to bring learning technologies into the classroom.

Canadian School Board Association

The government has already shown significant leadership in this area. We continue to support the main principles of the 'connectedness agenda' and look forward to working with government to continue to build an environment in which all Canadians can benefit from the promise of the new economy.

Information Technology Association of Canada

CANADA'S MAJOR CITIES ARE WELL CONNECTED TO HIGH SPEED COMMERCIAL BACKBONE(1)

But Providing Bandwidth to Small Cities and Rural Areas Remains a Challenge

(1) As of December 1998; drafted based on publicly available data
(2) Teleglobe lines; bandwidth not publicized
Source: Boardwatch Directory of ISPs; Industry Canada; Literature Search

5. Information and Computer Technology in Canada

As Canada has moved toward a knowledge-based economy, the opening-up of Canada's markets to international trade through the North American Free Trade Agreement and the World Trade Organization has led to a substantial restructuring of the Canadian economy away from manufacturing industries and toward services. The Information and Communications Technologies (ICT) industry has been particularly dynamic. According to Industry Canada,[95] ICT manufacturing and services contributed $34 billion to GDP in 1997, up 52% since 1990. ICT represented 6.1% of total GDP in 1997, about three-quarters of which was accounted for by ICT services, and the remaining one-quarter by manufacturing.

In an information economy, investment in knowledge is key to growth, and the ICT sector is a key provider of research and development. R&D expenditures in this sector are greater than in any other industry, representing almost 42% of total Canadian private-sector R&D.

Canadian ICT exports are substantial. In 1997, exports rose 8.2% to $26.8 billion, representing 8.4% of total exports. Manufacturing exports, at $25 billion, represented the lion's share of ICT exports. Canada has a large trade deficit in ICT manufacturing — in 1998 it reached $20.9 billion, an increase of 11.3% from 1997. The electronic parts and components industry

95 Industry Canada, *Information and Communications Technologies Statistical Review*, Highlights, May 1999.

accounted for nearly 46% of this trade deficit. With a trade surplus of $2.1 billion in 1998, the telecommunication equipment industry is the only manufacturing industry consistently running a trade surplus over the 1990-98 period. The trade balance in ICT services rose at an annual rate of 23.5% between 1990 and 1997.[96]

Globalization and the Communications Revolution: The Death of Distance

Globalization also contributes to economic development. In our modern world, international trade is dominated by multinationals. These global firms often control the entire production process for their products, and coordinate their production worldwide. Within this framework, a country's comparative advantage is based on the knowledge, skills and expertise of its labour force and institutions, local costs of production (including taxes) and its legal and economic environment. Less developed countries, with a relative advantage in unskilled labour, attract most of their foreign direct investments in these sectors, while transnational investment for skilled production is directed to more advanced countries.

There is no doubt that the advent of new communications technologies has fundamentally enhanced the globalization process in advanced economies. In countries where technological advance and infrastructure is abundant, this trend is most likely irreversible.

Technological change has an effect on all aspects of society. Today, cross-border information flows are beyond the control of public institutions, and are mainly private. They are reaching record levels that would have been unimaginable only 50 years ago. And whether new technologies are reinforcing local identities or blurring them, there is no doubt they are precipitating the global integration of consumers' needs and wants. The international spread of knowledge, culture and experiences is creating a "global demand." Multinationals are particularly suited to take advantage of this trend. Most of what we now consume has an international component, and soon any basket of goods and services purchased by households will only be a local variation of internationally produced goods and services. Every society will be consuming its own variety of every product, produced on an international scale. This has important domestic policy implications.

The electronic dissemination of information also supported the globalization of financial markets and enhanced the mobility of capital. Financial markets throughout the world are becoming more and more integrated. Soon all investors, including small personal investors, will be able to use electronic brokers (e.g. the Internet) to trade stocks worldwide, from the

96 Industry Canada, *Information and Communications Technologies Statistical Review* (1999), Highlights.

comfort of their living rooms. This is already having an impact on the financial markets, with the price of a seat on the New York Stock Exchange falling to US$1.2 million from its peak of US$2 million in February 1998.

- *It is estimated that by the year 2005, 60% of retail stock trades will take place on the Internet, 36% of bills will be paid this way and one-third of software will be purchased online.*
- *Distribution costs for insurance products are approximately 50% less than costs using traditional agents.*
- *The complete move to online billing could save the American economy between $19 billion and $46 billion per year.*

Technological advance has also reduced transportation costs. It greatly increased the mobility of final and intermediate goods, but also enhanced the mobility of human resources. Better means of transportation facilitated international trade, and made foreign direct investment more profitable.

Nortel and the Death of Distance

The number of copies of "War and Peace" that can be transmitted across North America every second, using old technology and the new Nortel technology:

- *1984: 12.5 copies*
- *1990: 625 copies*
- *1998: 80,000 copies*
- *1999: 400,000 copies*
- *2001: 1,600,000 copies*

The time it takes to download a 3.5-minute video clip:

- *46 minutes using a 28.8 KBPS modem*
- *10 minutes using a 128 KBPS ISDN*
- *20 seconds using a 4 MBPS cable modem*
- *10 seconds using a 8 MBPS ADSL*
- *8 seconds using a 10 MBPS cable modem*

Today, information and communications technology is rapidly transforming just about every field of human endeavour. Printing techniques are being replaced by the arrival of computer bytes. Each byte is an electronic packet containing typographic and numeric characters. Using telecommunications technology, it is possible to send trillions of words around the world in seconds. Because bytes are machine-generated, they can also be read and carry commands for other machines — such as robots. The combination of robotic and telecommunications technology helps eliminate physical distance. For instance, consider the growing area of telemedicine.

Arthroscopic surgery is now fully roboticized and, using reliable telecommunications technology, can be performed by a specialist anywhere in the world. Or consider the case of education. Universities are increasingly investing in distance education through the Internet and other forms of satellite and cable broadcasting.

Electronic Commerce — Canada and the world

- *Global e-commerce 1998: US$81 billion*
- *Canadian e-commerce 1998: US$5.5 billion*
- *Canadian share: 6.8%*
- *Global e-commerce 2003: US$3,200 billion*
- *Canadian e-commerce 2003: US$70 billion*
- *Canadian share: 2.2%*

Business to business e-commerce as a % of total

- *1998: 84%*
- *2003: 93%*

According to a recent article in the Canadian Business Law Journal,[97] the elimination of distance is causing the acquisition of goods and services to be separated into two distinct functions: information delivery and physical delivery. Currently, a customer goes into a store for both information (price, availability, choice, etc.) and acquisition (i.e. physically taking delivery of the product). With new technologies such as the Internet, a clear distinction is being made between the two functions. In the future, the information delivery component will undoubtedly outstrip the other in importance. But most importantly, this new form of retail separation allows greater economies of scale to take place and will therefore affect the structure and organization of firms and markets.

For example, it is not difficult to imagine the following scenario: a European consumer goes to the Internet site of an international retailer of computer parts. The Internet site is located in Canada and includes a multilingual information service using new Internet-based satellite telephone services technologies. The European client is able to get all the information he needs about the product and completes his purchase online. The product is then sent to the consumer directly from Canada, from a warehouse in Europe or simply through a European subcontractor.

What then is a retail store going to look like in the future? It will clearly be different physically when we talk about electronic commerce, but it will also likely look different in an organizational sense as well. Bluefly.com is an example of one such online store.

97 George S. Takach, "Internet Law: Dynamics, Themes and Skill Sets", *Canadian Business Law Journal*, July 1999.

Bluefly.com, an example of an online store*

Bluefly.com is an Internet-only store. It buys top designer clothing and housewares at significant discounts and then passes the savings directly to the consumers. Bluefly was the idea of a small entrepreneur in New York. The Web site was designed and programmed by a specialist firm in New York and is hosted and maintained in Houston. The merchandise ordered by Bluefly is stocked and managed in Massachusetts. Consumers' orders are delivered by a firm based in Georgia. Finally the centre for customer service is located in the Maine. Bluefly, with only 9 full-time employees, is able to compete with the largest established retail stores. None of its partners devote their full time to the Bluefly business, but Bluefly is able to take advantage of the vast experience and competency of its partners. Networking, outsourcing and sharing of information bring increased value to members of a partnership.

* Example taken from Dalloz, Xavier and André-Yves Portnoff. "Les entreprises virtuelles".

The new technological era will be one based on computers. They are a recent phenomena and we have not yet seen their full potential. There is much room to develop, and the countries that will experience the highest economic growth will be the ones in better control of these new technologies. This raises many policy issues for governments, in term of infrastructure and human capital. Indeed, history teaches us that any major technological change is accompanied by a range of conflicts between the old and the new. Old industries are subject to competition from new industries. Old, established firms are threatened by young upstarts. Older, developed cities and regions lose out to new geographical areas. Those engaged in the old ways of production are often too slow to shift to the new methods, and fail to innovate. Returns to old infrastructure and investment that seemed unshakeable in the past come to be surpassed by modern practices.

The last 10 years have been a transition period between the "old" and the "new" era. Like all transitions, it was filled with uncertainty. What would succeed could not be known ahead of time, so mistakes and failures occurred. However, governments need to recognize that rapid and proactive structural change can significantly reduce the risk of failures, and confer a substantial advantage to their economy. Failing to adapt to inevitable technological change, that conflicts with traditional methods and policy objectives, will result in long-term ineffective policies and a lagging economy.

Changes in the Financial Services Sector: An Example of Technological Innovation

It was vancity savings credit union that pioneered canada's first virtual bank, citizens bank and it was the credit union system in saskatchewan that introduced the first atm in the 1970s.

Canadian Co-operative Association

In recent years, the operating costs of financial institutions have declined substantially. This performance has been achieved through low-cost electronic delivery platforms, such as the Internet, telephone banking, automated teller machines and facsimile machines (the fax). A newly published study on banks in 15 European countries estimated that technological innovations in banking were responsible for a 2.8% reduction in total costs in 1989, and this annual rate of cost reduction had grown to 3.6% by 1996.[98]

This trend was documented in our Report *The Future Starts Now: A Study on the Financial Services Sector in Canada*. Many view the increasing use of automated teller machines (ATMs) as exemplifying the financial sector's transition into the virtual era. This was only the start. It is the Internet that will profoundly change the delivery of financial services.

Canadian financial co-operatives providing a full slate of financial services to the public are directly exposed to the realities of the new economy driven by interconnectivity, information technology, and service innovations.

Canadian Co-operative Association

When it comes to the Internet, Canada is one of the most wired countries in the world, when measured on a per capita basis. There are many surveys producing demographic statistical reports of Internet activity. The more conservative results suggest that there were more than 6.5 million Canadian weekly users (adults) by the end of 1998. Adding occasional and non-adult users to this number gives an impressive total of 13.5 million Canadians with Internet access, namely 55% of the population of Canada. Adult weekly usage is up 160% from 1996 to 1998, and it is expected that 33% of Canadians will be using the Web on a weekly basis by the end of 1999.[99]

Recently, it was estimated that among the worldwide population of Internet consumers, more than 7% use the Internet for banking operations.[100] The worldwide population of weekly adult Internet users is currently estimated at around 150 million people, and is growing at a phenomenal pace. Thus, at the present time, there are more than 10.5 million worldwide users that are regularly banking on the Internet. It is reasonable to expect this number to grow at an accelerating pace for the next couple of years. The Department of Commerce projects online banking to reach 10 million to 16 million U.S. households by the end of the year 2000.

- *More than 90% of those who bank online cite convenience, up-to-date information and the ability to balance accounts more easily as reasons for doing so.*
- *Of those who don't bank online, 60% cite the fact that their institution doesn't offer the option. Only 6% cite security concerns.*

98 Yener Altunas et al., "Technical Change in Banking" *Economics Letters* 64 (1999), 215-221.

99 Sources : ComQUEST surveys, Computer Industry Almanac survey, CyberAtlas.

100 Source: Roper Starch Worldwide.

These new technologies are also being used for behind the scenes operations. A case in point is a new way of dealing with customer inquiries that has been developed for the Toronto-Dominion Bank (TD Bank). It uses an "intelligent E-mail response" system which scans through each E-mail and determines the subject matter. Each inquiry is either sent to the appropriate service agent who responds within 24 hours, or an automatic response is generated. Of the 8,000 E-mail inquiries that TD receives each month, the system has seen one-third of the traffic answered automatically and only two-thirds handled by agents. Large cost-efficiency gains were obtained from this pilot program.

Technology to better support electronic banking, and the transition from paper to new forms of electronic money is also being developed. Canadian companies, such as Bell Mobile Communications, the Bank of Montreal and the Royal Bank of Canada are funding the development of wireless banking. Using wireless devices (such as cell phones) consumers will be able to access their bank accounts and complete a variety of financial operations.

Recently, Canada's NCR Corporation, announced that it has developed a fully working prototype of a conceptual Automatic Teller Machine (ATM). The new ATM will be equipped with iris and voice recognition technology that is likely to replace the "old" PIN number technology. This machine is also capable of speaking, hearing and seeing and will greet consumers by name. Such technologies would substantially enhance the security associated with using electronic services and make them even more attractive to consumers.

To keep up and profit from these rapid technological changes in product delivery, financial institutions throughout the world invest a significant part of their gross income in technology. The escalation of bank mergers in the increasingly global banking sector is also partly a reaction to the prospect and potential of new electronic delivery platforms, and the accelerating deregulation that will likely follow. Our Report cited earlier noted that "the Canadian financial services sector has been forced to invest heavily in new technology. In 1996, the industry spent $2.92 billion in information technology." But we also noted that "leading international financial institutions are each spending well over US$1 billion annually on technology". This is about one-third of the Canadian industry total every year.

In the competitive global market economy, innovation is the key to growth, market share, and prosperity. Former CIBC Chairman Al Flood pointed out, in a 1998 edition of *Maclean's*, that virtually all of the new competitors dwarf Canadian banks in technology, resources and economies of scale.

New platforms allow a widening of competition in the delivery of financial services, making it easy for other firms, institutions and organizations to do the same. Consequently, new competitors seem to be coming from every sphere of commercial business, including newcomers such as supermarket chains: Sainsbury (UK) and Loblaws (President's Choice Financial in Canada).

Telebank is the largest Internet-only bank in the United States and is already in the top 50 federally chartered savings banks,[101] according to the Federal Deposit Insurance Corporation (FDIC). It has more than 70,000 accounts, $3.2 billion in assets and $1.7 billion in deposits, and is now growing at an annual rate of 168%. It now controls 70% of all Internet banking deposits. Customers maintained an average account balance of $23,350.

Canada's banks are also investing in Internet-only banking. The Security First Network Bank is now a subsidiary of the Royal Bank of Canada. Others have similar plans. CIBC has recently received a U.S. bank charter as an initial step in creating a national electronic bank: Colombus First National Bank, based in Florida, will offer U.S. consumers a full set of electronic services over the Internet. Likewise, the TD Bank acquired a U.S. banking licence in 1997, Waterhouse Securities Inc. Its intention is to use it to launch electronic banking services for Americans.

With the creation of President's Choice Financial (PCF) in February 1998, Canadians have access to a product very similar to U.S. Internet-only banking. PCF is a division of Loblaws Companies Ltd., and can offer favourable banking conditions to Loblaws supermarket customers. CIBC is the services supplier and holds all loans and deposits. In return, it takes a portion of the revenue, but its name and logo are not used.

Customers can bank anywhere in Canada where Interac services are provided (direct debit, ATMs). Moreover, PCF has installed Automatic Teller Machines in most Loblaws and affiliated stores. PCF provides electronic banking only, but offers all basic banking services free of charge.

The rates offered in deposit and chequing accounts are much higher than the normal rates for the industry. It also provides a rewards program whereby patrons collect points to be redeemed for free groceries. The objective is to enhance consumer loyalty to Loblaws supermarkets. For example, opening an account earns customers 20,000 points, worth $20 in groceries.

The latest development in Web-based financial services is the merger of a major Internet-only brokerage firm, E*Trade, with Telebank. E*Trade is a U.S. Internet broker which has over 1.3 million accounts. With only $1,000 to start with, anyone can open an E*Trade account, skip the traditional broker, and start trading themselves. There is a large number of stock trading place on the Internet, offering transactions costs of $20 on average, compared with about $60 per trade charged by traditional brokers. The result of the new merger is a financial institution providing the complete range of financial services, from insurance and mortgages to stock market investments and deposit taking. For customers making regular use of a large set of financial products, it is certainly less expensive and more convenient to bank and invest online, at the same place. The consumer can quickly consult up-to-date information and thus, personal money management can easily be expanded to an enlarged set of international and national investments. Customers are only

101 Note that savings banks in the United States differ from commercial banks. Telebank would not be in the top 100 commercial banks.

a "few clicks" away from investing some of their savings in the stock market, certificates of deposit, fixed income securities or the old fashioned savings account.

The federal government has shown strong leadership with Industry Canada's SchoolNet and Computers for Schools. CSBA supports further investment in the initiatives and values the cooperative relationship it has bilt with SchoolNet.

Canadian School Board Association

Government and the New Economy

New technology leads to transformations in society. The development of new information and telecommunications technologies (e.g. the Internet, electronic mail, fax, etc.) has already brought changes in basic economic sectors, such as the tertiary sector. This section briefly examines the future of government's regulations and policies in response to recent technological advance, and suggest some policy guidelines inspired by the new economic growth theories. A special subsection focuses on the financial industry.

1. Policy response to technological advance

Economies around the world are undergoing deep structural changes, causing frictions and organizational inadequacies. The transition to a computerized society began half a century ago, but the world is just beginning to realize its full potential. For modern economies, it is mainly higher productivity brought about by new technologies that will drive economic growth, and the role of physical capital will be greatly diminished. In Ireland, the champion of economic growth in the last 10 years, the stock of capital is decreasing while productivity gains contributed to more than 85% of national output growth in 1996.

Not so long ago, many experts believed the U.S. economy was to decline, and would be supplanted by others like Japan or Germany. Since then, productivity growth has boosted the economy. Advanced information technologies already account for 8% of American GDP, and are expected to create 1.3 million jobs within the next 10 years, plus 10 times more indirect jobs. The flexibility of the American market is well suited to take advantage of rapid changes.

The Government recognizes that the new economy is the key element in economic growth in the 21st century. It must act now to support it to maximize the competitive stature of Canada's knowledge based sector if Canadians are to enjoy personal and economic growth as the new millennium begins.

CATA Alliance

Economic policy-makers should concentrate their efforts to promote the development and the use of new technology, in conjunction with the promotion of a better adapted education system. New forms of training are needed, oriented towards the needs of the private sector (e.g. internships). Research and innovation needs to be strongly encouraged, as it fuels economic growth. The Information Highway, as we know it now, is still in its embryonic stage. But as its potential is being discovered, it will be a source of major economies of scale, and will be at the centre of a restructuring in the retail market and in the relationship between businesses and their suppliers.

It is not enough just to support research and development — that support must be directed to "market-driven" endeavours. The recent report of the Auditor General made precisely this point. Unless that government financial support is based on a sound understanding of the needs of the new economy, it

is not evident that it will actually foster transition from the old economy to the new.

- *In 1996 less than 40 million people were connected to the Internet. By the end of 1997, that number had grown to 100 million.*
- *In 1994, three million people almost all of whom were Americans used the Internet. By 2005, some are predicting that one billion people will use the Internet internationally.*
- *On the basis of current growth, Internet traffic will consume 90% of available bandwidth on worldwide networks by the year 2002.*

In the knowledge-based economy, the telecommunications and broadcasting sector, which is a mainstay of the Information Highway, acts as a "nerve centre" for economic development. Governments the world over have come to realize that telecommunications, broadcasting and new technologies are not only dynamic growth sectors in their own rights, but are also driving forces for economic development. The economic well-being of nations is increasingly linked to the technological sophistication and structure of their telecommunications infrastructures. Development of the telecommunications industry is vital in making countries more competitive and thereby has considerable bearing on how easily they are able to attract foreign investment. Clearly, the countries that embrace deregulation of new technologies and the countries that are the first to create an environment conducive to the promotion of electronic commerce will reap significant economic benefits.

From the overwhelming dynamism of the United States to the relentlessly rapid progress of Australia and the stunning reinvigoration of Ireland, the world is rife with examples of other countries that have adapted to the new challenges of the global economy even more effectively than Canada.

Business Council on National Issues

One way that governments can promote technological change is by promoting trade. This is becoming an increasingly important way of acquiring new technology. The share of R&D embodied in the goods and services imported in Canada has been increasing overtime, and now accounts for approximately three-quarters of the total R&D intensity in manufacturing industries.[102]

2. The future of governmental regulation

For years now, the place of the government in the functioning of markets has been one of the most debated subjects in economics and other political fields. But the latest technological changes and the advent of more integrated international markets will alter the role of government.

For example, the Post Office was originally established as a government-owned monopoly because of Canada's vast geographical expanse. Today, however, that monopoly is being challenged by courier companies, fax machines, and e-mail. The latter option, namely e-mail, has a variable cost close to zero. Electronic billing and payment has the potential to take away from the Post Office an important source of revenue.

Where regulation is still relevant, globalization is causing nation-states around the world to seek new forms of co-operation. Most of the new

102 Revenue Canada (1998), *the Canadian Electronic Commerce Strategy*, p. 6.

obstacles that will emerge in the coming years will comprise an important international component, and the Canadian government will not be able to effect efficient solutions without strong international structures. On the other hand, where there is no international consensus as to the relevance or need for regulation, international co-operation will be difficult to achieve.

The government also has to adjust to the fact that the internationalization of production and wealth makes tax avoidance and evasion easier. Some sectors of the economy, where the mobility of factors is low, end up paying more in tax than they would otherwise. They have to compensate for the loss in other sectors where greater mobility exists. Similarly, as electronic commerce develops, the collection of sales taxes is becoming problematic. If a Canadian downloads software electronically from Texas, how can Canadian governments tax such a transaction? How can a computer store in Halifax, or a Canadian software Web site, compete when its sales are subject to both federal and provincial sales taxes? These are important questions for governments and for Canadian businesses.

Perhaps more important, the pace of technological advance has accelerated. The "life cycle" of most modern technologies is falling rapidly. The average regulation takes many years to conceive, develop and implement. How can governments possibly keep pace? They need to develop new regulatory models. This is already happening as government-imposed regulation is increasingly being replaced by industry self-regulation. The role of the government will be to provide guidance, laying out goals and objectives and communicating information to help industries to develop their own rules and manage risks. This is precisely what governments are starting to do.

3. The impact of government on the development of new technology

Government can also shape the direction and level of technological change because it is a large user of technology and because it can implement tax policies that affect research and development. According to the OECD, "Governments can have a further role in stimulating test-bed applications . . . through a range of financial means . . . As large potential users of information and communication services for their own internal needs and for services to the public, governments can assist in the development of new applications, stimulating their diffusion and assisting in familiarizing the public with their use."[103]

4. The impact of new technology on government services

The basic infrastructure of the new economy, the Internet, also provides an opportunity to deliver better government services and to deliver them in a more efficient manner. One example is the delivery of education. Long distance training can now be conducted via satellite link up, with students taking courses via the Internet or via television. Many professors now use the

---

103 OECD, *The Impact of Telecommunications Infrastructure on Economic Growth and Development*, 1994, executive summary.

Internet to post coursework, outlines and exercises. User groups allow students to engage in discussions and pose questions to their professors. Students in isolated communities, or those with disabilities, now have as much access to education as do those who live in large urban centres. The virtual university reduces institutional costs as well as individual costs faced by students.

Canadian health research can count on many outstanding achievements over the past decades. Now we can hope even more world-class research and discoveries that will directly impact the quality of life of Canadians and act as a strong engine of growth of the new knowledge-based economy.

Council for Health Research in Canada

Similar opportunities exist with respect to health care. Health Canada is currently developing a "pan-Canadian health information highway," that can help Canadians have access to better health information, improving the quality, accessibility, portability, and efficiency of health services across the entire spectrum of care.

The Internet also makes long distance diagnosis a reality. For example, Cape Breton diagnostic centres are now linked to Halifax's Queen Elizabeth II Health Centre, providing real-time tests provided by a doctor in Halifax. Specialists can have rapid access to a patient's relevant clinical and nonclinical data.

The Committee supports the federal government's initiatives to become a model user of new technology in the delivery of its services. Given its size, the federal government could become a catalyst for the rest of the economy to do the same.

5. Electronic commerce

Canadian e-shopping habits

- *Only 26% of top Canadian retailers are selling online — this compares to 50% in the United States.*
- *Canadians who shop online spend 63% of their e-dollars at American sites.*

Canadian online sales as a % of total retail sales:

1999: 0.5%

2003: 4.5% — predicted

Internet usage and e-shopping

- *A larger proportion of Canadians are on the Internet than is the case in the United States:*
  - *1997: 16% Canada and 10% US*
  - *1999: 30% Canada and 22% US*
  - *2003: 64% Canada and 38% US — predicted*
- *A smaller proportion of Canadian Internet users shop online:*
  - *1997: 10% Canada and 34% US*
  - *1999: 16% Canada and 42% US*
  - *2003: 35% Canada and 48% US — predicted*

Business-to-business transactions comprise the vast majority of current and potential electronic commerce volumes. At this level, electronic commerce has been in existence for more than two decades, primarily through

the use of electronic data interchange (EDI). That system was relatively expensive and limited to large corporations. The Internet, however, offers the potential for expanding this commerce to the small business sector as well.

The benefits of electronic commerce include the computerization of routine and mundane tasks, increasing efficiency and reducing transactions costs. It allows firms to substantially lower their holdings of inventories, and to speed up the design times and manufacturing schedules.

Canadian SMEs connected to the Internet

- *1999 1st Quarter: 61%*
- *1998 1st Quarter 43%*
- *1997 1st Quarter: 31%*
- *1996 1st Quarter 15%*

One of the important consequences of electronic commerce, and new communications technologies, is the ability to disaggregate the various functions associated with the ultimate production of goods and services. The various activities of any business can now be located anywhere in the world, based on cost. Manufacturing is increasingly moving to low-wage countries while service activities are increasingly dominating the economy of Canada and other industrialized nations. In the first quarter of 1999, 10.7 million people were employed service industries in Canada.

Electronic commerce is dominated by the United States. Only one-quarter of Canada's top retailers are conducting business online, whereas one-half of American retailers do so. Canada's online market is estimated to be 12 to 18 months behind the American market. With the exception of financial and travel-related transactions, Canadians spend the bulk (63%) of their online dollars at American Web sites.

The federal government cannot force Canadian companies to become e-commerce participants. They will do so because it is in their best interest. Nevertheless the government can do a variety of things to make the transition to the new economy less risky. **The Committee supports the following initiatives and recommends that the government move expeditiously to ensure that its own procedures and policies promote the utilization of new technologies:**

- **Bill C-6 which promotes privacy safeguards;**
- **A technology-neutral tax system;**
- **A legal environment that recognizes digital signatures;**
- **A strong system of intellectual property protection that promotes the dispersion of new technology;**
- **Support for electronic infrastructure; and**
- **Deregulated markets.**

6. The financial services sector

With the development of new information technologies, greater economies of scale and scope are now possible in financial product delivery. An informational platform (e.g. the Internet) can provide low-cost information to consumers and take orders, while the actual product delivery can be performed separately. In this new environment, the greater the range of products offered, the greater the potential to capitalize on scale and scope economies. These platforms are being provided by firms that are not financial institutions in the traditional sense.

Therefore, the regulation of Canadian financial institutions must recognize these new realities. Unregulated firms, whether financial or non-financial, will exploit the opportunity to become the conduit to a wide range of financial services. A business, external to the financial system, can build-up "an informational platform" and offer an extended range of financial services via affiliated partners. This independent business would appropriate most of the scale economies generated by the use of information technology, while the financial institutions would be limited to performing the physical delivery.

Moreover, with the Internet and financial globalization, banks are losing their geographical identity. Canadian banks will have an opportunity to attract foreign customers, and Canadians customers might want to bank with a foreign entity. There are two immediate consequences for regulation. First, Canadian regulations and other forms of governmental intervention (such as deposit insurance) will have to compete with other nation's regulations. Secondly, as Canadians can access inexpensive international banking products, the scope of domestic regulations will be greatly diminished.

Furthermore, if a globalized personal banking system develops, rates of return on similar investments or deposit accounts offered by (branchless) banks would, by arbitrage, converge.

Consumers of financial services will get greater access to capital, but face increasing opportunities to make mistakes. It will thus become important for governments to provide guidance to the financial system and communicate information to customers. The Report of the Working Party on Electronic Money, published by the Bank for International Settlements, recognized that innovation and competition in the financial system can lead to greater efficiency amongst service providers, with resulting benefits for consumers. But the government will have to address some key considerations.

For consumers to make the best informed choice possible, virtual financial institutions must provide full transparency about the services they are offering. Because actual service delivery is increasingly being separated from its informational component, the upfront disclosure of any relevant facts that affect consumers' risk and liability is essential (e.g. user rights, information on the service provider and its obligation toward consumers, applicability of any deposit insurance or other guarantees, etc.).

To protect consumers' privacy, the intentions of financial institutions regarding the use of any private data has to be made clear. When consumers make use of electronic transactions and payments, they lose some confidentiality about their lifestyles, and their preferences. Marketing firms are ready to purchase such valuable private information. Some customers might want to disclose such information in exchange for more advantageous banking rates, while others might not.

Government has to ascertain the financial integrity of any electronic service provider. Liquidity should be adequate to meet the demand for funds, investment policies should be appropriate, and risk management schemes and internal controls should be adequate. In a global Internet environment, who would do so?

The electronic system must be safe enough to prevent criminal activity (e.g. encryption of electronic transmissions, hacking activity on financial Web site). Would it be possible for some ingenious criminal to replicate the Web site of an already existing institution and collect deposits?

In summary, government can best enable Canadians to fully exploit the benefits of the new economy by providing a flexible economic and regulatory environment, and not attempt to dictate where the future will take us. It is an often-repeated anecdote that Microsoft founder Bill Gates viewed the Internet as a passing fad as recently as the mid-1990s. Economic developments caused him to change his mind. His firm operates in a highly competitive marketplace and the consequences of failure and tardiness can be severe. That is not the case with government where no such pressure exists and where mistakes have a long shelf life.

As noted earlier, we do not know how businesses will organize themselves in the future — will they be large centralized monoliths or will they be decentralized networks of many small and independent enterprises? Smaller enterprises appear to be the better innovators. For the decentralized model to thrive, however, requires an economic system that protects intellectual property and that has a well developed market for financing new ventures.

CHAPTER 6:
NOTA BENE

The Committee brings to the attention of the government the following issues.

Cost Recovery

As part of its Program Review initiative, the federal government instituted a new policy of cost recovery for a variety of services. This was in response to the budget cuts that the government was to implement, but it was also part of the initiative to "get government right." As part of this, departments were to streamline their operations and eliminate those that were not needed, with the understanding that clients would pay for some of the services they receive.

This is not normally the way government operates. As a general rule the federal government collects revenues from Canadians and provides them with a variety of services, not linked to their contribution to general government revenues. This is due to the fact that government programs are generally designed to provide benefits to the public as a whole.

In some cases, however, government services deliver private benefits. In such a case, the government is like any other firm. Unlike the typical business firm, however, the government tends to be a monopoly provider of a service. And unlike the typical monopolist, the government has the power to order customers to purchase a particular product. Imagine for the moment a telephone company that cannot only prevent Canadians from purchasing telephone services from others, but that can force them to buy a specified amount of telephone services. This is precisely what some business groups contend the government's departments and regulatory agencies are doing in their pursuit of cost recovery.

The small business community and agricultural groups have complained about cost recovery for some time. Now the extent of dissatisfaction has become broader.

Total user fees imposed on the business sector have grown by 47% in only 2 years, 1994-95 to 1996-97. For manufacturing companies, they have grown by 50%. According to the Business Council on Cost Recovery (BCCR), these fees are more like taxes than prices for services. They appear to be subsidizing other activities or adding to general revenues. They are more like taxes because government departments are not following the guidelines originally set out in the Cost Recovery Program. They are not linking the charges to the value of services provided. They are not minimizing their costs of delivering services and they are not re-engineering themselves to provide better services. Indeed, in some cases such as veterinary drug approvals, service quality has deteriorated and is far from promised standards.

As taxes, these user charges impose upon the economy the same kinds of distortions as do personal and corporate taxes. According to the BCCR, these fees have reduced total GDP by as much as $1.4 billion, costing 23,000 jobs. The introduction of new products in Canada is being delayed, imposing direct costs on consumers and causing our economy to be less productive.

The Committee has recommended earlier that all government initiatives be subject to Program Review, a Productivity Covenant and a regulatory audit. The manner in which the government's policy of cost recovery is being implemented is a prime candidate for such an audit.

Farming Issues

A number of witnesses asked the Committee to consider the situation being faced by agricultural producers, and especially western Canadian grain and oilseed producers. We were told that farm incomes in western Canada will be lower than expected. In fact, some 41% of farmers in the Prairies expect to lose money in 1999, while only 16% of them expect to have profitable operations this year. Lower farm incomes are the result of depressed commodity prices, caused in large part by the high production subsidies in both the United Stated and the European Community. Witnesses told us that the federal government instituted a reduction in agricultural support that went well beyond our trade commitments. By acting as international "boy scouts," the livelihood of western Canadian farmers has been put in jeopardy. Charts 1 and 2, based on information provided by the Hon. Dwain Lingenfelter, Saskatchewan Minister of Agriculture, demonstrate on the one hand that Canadian farm subsidies in this product line are well below those provided by our major competitors and on the other hand that wheat and oilseeds producers receive less support on average than other agricultural producers, and far less than those received by other Canadian producers, notably milk and egg producers.

Chart 1: Estimated Government Support to Farmers — Wheat

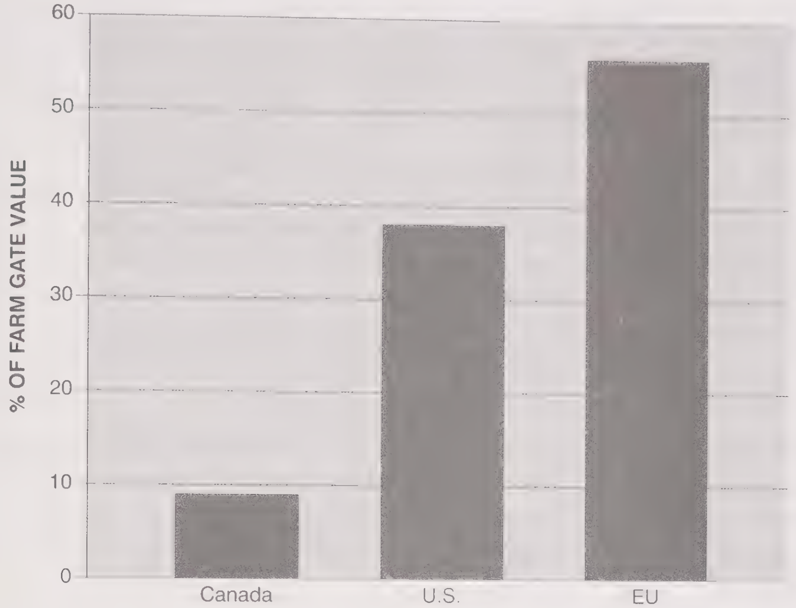
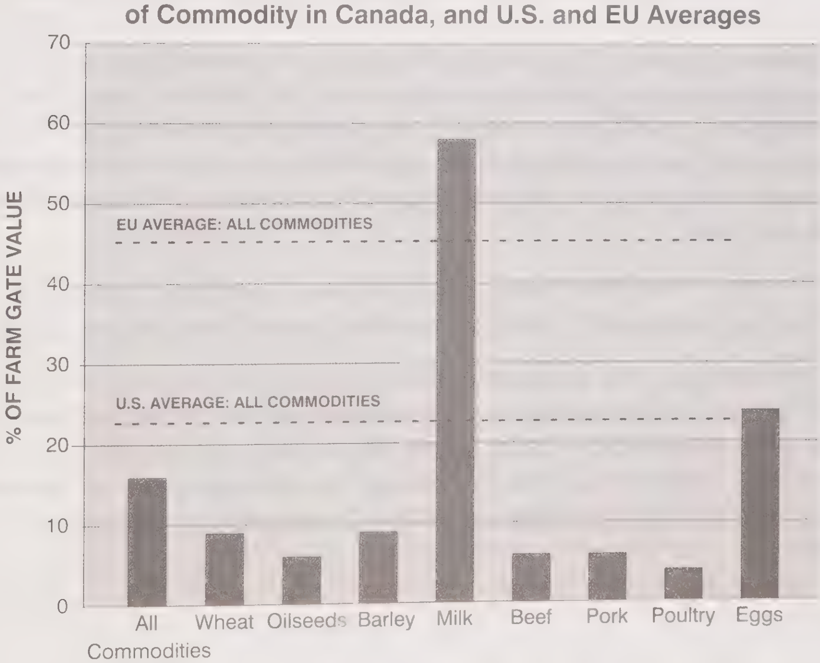


Chart 2: Estimated Government Support to Farmers by Type of Commodity in Canada, and U.S. and EU Averages



Although the federal government recently announced additional aid in this field, witnesses felt that this extra support was inadequate, as many farmers have fallen through the cracks. They expressed fear that western farmers would not be able to maintain their level of production, their productivity and therefore, their competitiveness, in the next few years. In their view, only the federal government can play the lead role in this regard:

> . . . our agricultural sector is a key strength of our national economy and society. Agriculture definitely offers an enormous opportunity to capture some of the benefits of an expanding global market place. However, the sector is currently under serious economic strain, which only the full intervention of the federal government can address. (Saskatchewan Wheat Pool, brief, p. 2)

Witnesses suggested various forms of federal government support including among others: direct and immediate financial assistance, adequate long-term funding for an effective safety net program, lower grain transportation rates, and a rollback of federal user fees and cost-recovery activities.

The Committee believes that the agricultural sector is a crucial business for Canada. It is one that needs to survive, and one that needs to grow. And it is to remain an essential part of the new economy.

The best solution is clearly to negotiate international reductions in farm subsidies, allowing the market to set prices and allowing competitive producers to succeed. Canadian producers are efficient and can successfully compete against other farmers in world markets. They cannot compete against the American and EU treasuries. **In the meantime, however, the federal government has an obligation to support farmers that are in distress because of the failure of the international community to deal adequately with this issue.**

We note that the House of Commons Standing Committee on Agriculture is currently studying this matter and await its report.

Nevertheless, the Committee believes that the federal government should be mindful of the fact that other countries do not always follow our lead in international trade matters. When they do not, there can be significant consequences for Canadians. In such cases, the government has a certain obligation to those adversely affected as a result.

Fire Fighters

Representatives of Canadian fire fighters told the Committee that, given the nature of their occupation, fire fighters face higher risks of disease, death and injury than other workers. In Canada, the *Income Tax Act* regulations recognize fire fighting as a "public safety occupation." This permits fire fighters to retire at the age of 55. These same regulations, however, stipulate a maximum pension benefit accrual rate for years of credited service of 2% under a defined benefit pension plan. This applies to all occupations, including fire fighting. This, in effect, penalizes fire fighters as they do not have the opportunity to contribute more to their registered pension plans to offset their lost retirement income. As result, it was recommended that the pension accrual rate for fire fighters be increased to 2.33% for years of credited service. An alternative recommendation would be to make fire fighters eligible for reduced CPP benefits at age 55 and unreduced CPP benefits at age 60.

> In essence, the regulations identify a problem for fire fighters in that they are required to retire earlier that the rest of the Canadian working public, but there is no solution provided through an increase in the accrual rate. At the current accrual rate, and with higher mortality rate than other Canadians, fire fighters are simply prevented from enjoying a pension plan they have paid into during their working careers. (International Association of Fire Fighters, Canadian Division)

The Committee acknowledges that there is an inequity under the *Income Tax Act* regulations as it relates to early retirement and pension. We also understand that, although this issue was raised by firefighters, it affects all Canadians involved in a public safety occupation. We feel that there is a need to revisit these provisions.

RCMP and Local Policing

The Committee also heard concerns about the Royal Canadian Mounted Police (RCMP). The RCMP enforces federal laws and works with communities to ensure the safety of all Canadians. It also provides community policing services to provinces, territories and municipalities (with the exception of Ontario and Quebec) under contract to the federal government, including: the investigation; detection and prevention of crime; the enforcement of laws; the maintenance of peace and order; and, the protection of life and property.

We were told that cutbacks to the RCMP over the years have created problems in many municipalities across the country. For example, the reduction in the number of personnel on duty with large areas to patrol have left some areas totally unprotected. In some instances, it would be impossible

for an RCMP officer to respond properly if two unrelated incidents were to happen. Decreased RCMP funding has resulted in a direct shift of costs from government to individuals.

> During the past few years, short staffing has had a direct, negative impact on both the quality and quantity of policing services available. In turn, we believe that some avoidable human and property costs have been incurred which, in effect, shift the cost of policing from the federal government to individual citizens. (Alberta Urban Municipalities Association, brief, p. 11)

Overall, we were told that the federal government was not fulfilling its commitments under its policing contracts, as RCMP officers cannot provide adequate police services to their contracting partners. This creates concerns about the safety and security in municipalities that contract with the federal government for this service. **For this reason, witnesses requested that federal funding be restored at the sufficient level to ensure that RCMP contract policing obligations are respected. As a general principle, the Committee believes that such contracts should be honoured by the federal government, in both letter and spirit.**

Foreign Assistance

Witnesses reminded us of a foreign policy statement made by Canada in 1995 with respect to globalization and the need to provide assistance to poorer countries. This statement acknowledged that helping poorer countries can contribute to a stronger global economy:

> . . . poverty in developing countries increasingly affects the economic, social and political welfare of developed countries (. . .) and can lead to serious global problems such as environmental degradation, political and economic instability, and large-scale immigration of people in search for a better life.[104]

The Committee was told that Canada's foreign aid budget has been significantly reduced in recent years — both in real terms and as a share of GDP. According to The North-South Institute:

> In 1984, Canada committed 0.49 percent of its GDP (or $2.3 billion) as official development assistance (ODA). By 1997 that figure had declined to merely 0.34 percent of GPD (or $2.7 billion in current value, equivalent to $1.3 billion in 1984 dollars). This placed Canada 8th among OECD economies in terms of generosity.[105]

---

104 Quoted in the brief by Action Canada for Population and Development, p. 2.

105 The North-South Institute, brief, p. 2.

We were also told that Canada's contribution to Official Development Assistance had been eroded by a diversion of aid funds:

> The amount available for investing in long-term development has been further eroded by the diversion of aid funds to address short-term relief efforts in Kosovo and the former Yugoslavia (defined by the OECD as aid-eligible), Central Africa after Hurricane Mitch, and Central Africa after the wars. Scarce aid resources have also been used to finance debt relief . . . [106]

Overall, witnesses hoped that the declining trend in development assistance could be halted and reversed, given Canada's budgetary surpluses. In their view, assistance to poorer countries must be part of a priority for renewed social investment:

> It would be short-sighted of the Canadian government to devote the benefits of the fiscal dividend to domestic social investment only. Support for development is not only a humanitarian response, but also enlightened self-interest. Increased prosperity in the developing countries expands markets for the industrialized countries. Pressures for migration and social and environmental stresses are reduced with increased human security.[107]

The Committee shares the view of witnesses that providing development assistance to developing countries can benefit the global economy. We also feel it is important for Canada to focus more firmly on human development initiatives as well as on long-term poverty reduction. Further, we believe that funds should be used for the purposes they were originally intended.

Mechanics' Tools

Once again this year, representatives from automobile apprentices and technicians came to the Committee regarding the lack of provisions in the *Income Tax Act* regarding their tools. These special provisions in the *Income Tax Act* would be similar to those allowed to artists, chainsaw operators and musicians. The initial cost of tools for apprentices and automobile technicians, and annual replacement purchases, can total tens of thousands of dollars, yet are not deductible. In addition, industry faces shortage of qualified technicians as the number of automobiles is growing. The industry initiated changes to address those concerns, but it seems powerless when considering the share of a technician income going to investments in his tools. As reported by one of their representative to the Committee:

106 The North-South Institute, brief, p. 2.

107 Action Canada for Population and Development, brief, p. 3.

> The absence of a tax deduction on technicians' tools has been cited — time and again — as a key contributor to attrition within the existing workforce. More importantly, for the future health of the industry, it is systematic barrier and disincentive to young people that might otherwise consider this industry as a career.[108]

Employment expenses are generally not available to those who are not self-employed. Only a few exceptions are granted, as noted above.

The Trucking Industry

The trucking industry in Canada is facing an increasingly challenging environment in the past few years. Increasing traffic related to greater economic activities and NAFTA have resulted in increased transborder shipments. Truckers note that the state of the national highways infrastructure has deteriorated and shortened the useful life of their equipment.

In addition, longer hours on the road have contributed to increasing costs for meals and thus they believe that the reduction of meal deductibility limits from 80% to 50% has a great impact on them. Because transborder traffic is common in their business, truck drivers requested a gradual restoration of the meal deductibility limit to 80% in the U.S.

As the Committee was told:

> We're talking about truck drivers that are away from home significant amounts of time whose rest stops are governed by regulations, for example the federal hours of services regulations. So they really don't have choices in terms of where they stop.[109]

Apprenticeship Training

Apprenticeship training is a serious concern for the Canadian precision metal trades. Serious shortages of skilled tradespersons in the Canadian precision metal trades has contributed to a higher cost of labour for the industry. In addition, the ageing of the current workforce is also worrisome to them. Labour shortages mean longer hours for existing specialized technicians. For example, the Canadian Machining and Tool Association

[108] Remarks by Keith Lancastle, Canadian Automative Repairs and Service Council, submission to the Committee, November 25, 1999, p. 3.

[109] David Bradley, Chief Executive Officer, Canadian Trucking Alliance, November 25, 1999, Proceedings 29:1245 (preliminary version).

reported that the average hours worked in the precision metal sector is 56 hours per week. In addition, the sector fears a loss of businesses because of the unreliability of services and products caused by this shortage.

The reduced number of technicians compared to past decades reflects this shortage. As stated by the representatives of the industry:

> Social attitudes remain, however, a problem in that students, parents and educators fail to identify apprenticeship education as a career path for Canadian youth. They view the trades as less desirable and they attempt to misdirect the youth into other areas rather than into trades. This results in not being able to recruit applicants for apprenticeship trades training. In many instances we get the wrong type of candidates trying to enter the trades.[110]

Apprentices are trained in formal apprenticeship programs, where the annual capacity is limited to 500 students, adding to the burden of the shortage. Employers pay 90% of the cost of this training. This training is conducted generally by small businesses.

However, the funding of apprenticeship programs becomes problematic, in the view of the industry. According to the representatives of the industry:

> The Federal Government will withdraw all funding from apprenticeship training by 1999-2000. Provincial governments are reforming their own apprenticeship programs. The outcome of these reforms is expected to download the cost or user fees onto apprentices in the way of user fees. Our projection is that outcome of this activity will decrease — not increase — the number of people within the apprenticeship system.[111]

To alleviate these pressures, the Association promotes the idea of a 75% tax credit that should be granted to any Canadian company that is registered to a provincially accredited apprenticeship program. This tax credit would apply on the wage costs associated with the approved training of the accredited apprentice.

---

110 *Making Case for Apprenticeship Training Tax Credits*, Discussion Paper sent to the Committee from the Canadian Tooling and Machining Association, September 22, 1999, p. 3.

111 Ibid.

Local Economic Development

The new global economy and the inevitable, deep structural transition that follows, will not offer real opportunities for all individuals and regions. Cape Breton is one commodity-based region facing high unemployment. The fishing industry has collapsed, adversely affecting rural counties such as Richmond. The coal industry is on the verge of significant layoffs next year.

The federal government has, in the past three decades, initiated a variety of measures to revitalize industries and stimulate local development. These measures have not been entirely successful.

While continual economic decline imposes economic and social costs, inappropriate financial aid could sometimes be counterproductive. Mr. John Whalley, economist at the Cape Breton Regional Municipality, cites the Cape Breton investment tax credit as one of these counterproductive measures:

> The experience with the Cape Breton investment tax credit was that the credit was an upfront credit. Once companies invested in capital equipment, they received a credit. If the capital was mobile, the companies would leave. The region was left with nothing. There was no long-term benefit for that type of measure.[112]

Nevertheless, local authorities are determined to look forward instead than backward, seeking new opportunities linked to their inherent advantages. What local administrations now focus on are specific actions to attract new industries, with infrastructure spending to improve the quality of life of local inhabitants. As Mr. Whalley further added during the Committee hearings:

> The idea is that in our region and in other regions in Canada, the greatest public need is employment, not investment in capital, not infrastructure, but private investment that can create employment.[113]

Other regions across the country also face similar challenges associated with "not being in the right side on the road of progress." Many community-based initiatives have been started, particularly in British Columbia.

> There is no longer any question that comprehensive, community based development capacity is a crucial component to addressing the endemic conditions of poverty. The challenge is how to translate what is working into a broader strategy capable of scaling up success.[114]

---

112 *Proceedings* 12, Halifax, 1610.

113 Ibid.

114 Canadian CED Network, brief submitted to the Committee at Vancouver, November 23, 1999, p. 2.

The ultimate goal is to reach a state of self-sufficiency with great involvement first coming from local institutions, firms and above all residents. Therefore, depending on the stage of development of the particular community, investments would be made to improve local infrastructure or to meet other needs to create a favorable environment for the local economy, leading to job creation. Local organizations recognize that the biggest hurdle is the people living in the community themselves. As the Canada CED Network, or CCEDNet, reported in its presentation:

> Most often, people are willing, but their ability or capacity may be limited by factors such as: low economic activity in the area; skills that don't match the job market; inappropriate lifestyles; few employment choices; limited skills and/or work experience; poor self-esteem or confidence; no access to training or opportunities to learn and/or policy restrictions related to acquiring or building assets or accessing capital.[115]

Among other ideas and suggestions, the CCEDNet believes also that:

> . . . tax credits to fund community based approaches to training and development could be an important vehicle for reducing poverty among citizens.[116]

In the light of all these experiences, the Committee recognizes the fact that recent strong and continuing economic growth has been shared unequally among our regions. Some local development problems have a long history. Others are more recent, having appeared since the economic restructuring that occurred because economic globalization. Finally, some communities have been hit even harder by the recent recession experienced in British Columbia, while the rest of the country enjoyed better economic conditions.

The Committee recognizes also that this is not a lack of ideas and will. Even more, concerned communities have demonstrated their willingness to look forward, with initiatives more related to the needs of the communities they serve. It appears that local levels of government have learned from the mistakes of the past.

The Government of Canada could address this matter by appropriate incentives, matching and supporting the actions initiated by the communities. This could take the form, as was successfully done in the past, of projects in collaboration with Human Resources Department Canada. However, the commitment will come first from local authorities, enterprises, and people, the stakeholders who have a better idea of what they need to fully participate in this new era.

---

115 Ibid, p. 6.

116 Ibid.

Defence

Program Review was very effective in its goal to restructure program spending, but affected some departments more than other. Spending on defence is a case in point.

Defence spending cuts have resulted in base closures and delays in modernizing military equipment. At the same time, Canada has committed to an increasing number of international missions. This has proved to be challenging for our Armed Forces.

As one of the representative of the Conference of Defence Associations told the Committee:

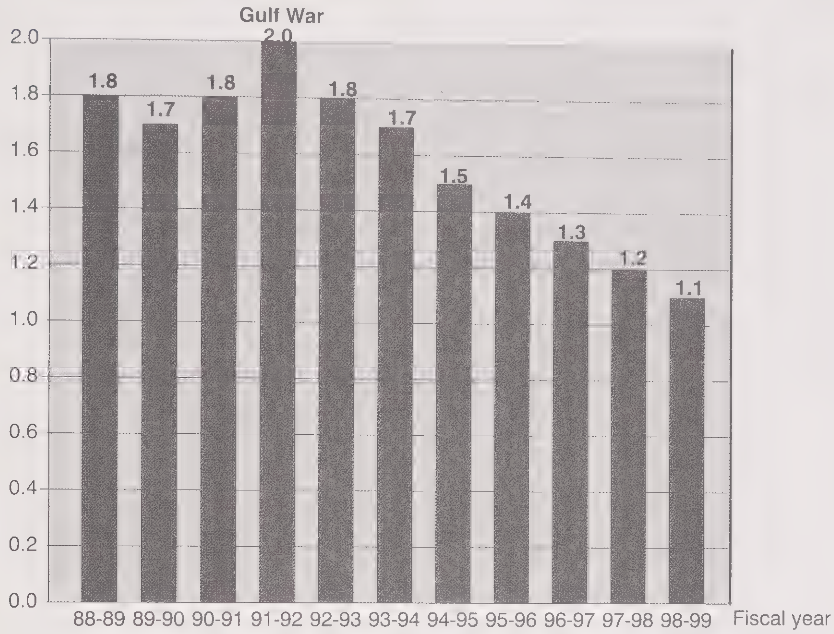
> Canada's armed forces are crumbling because a mismatching between increasing commitments and the decreasing resources provided to execute those commitments. (. . .) Today, with the recent East Timor deployment, there are almost 4,500 Canadian troops serving abroad on 22 separate missions. This is the largest deployment of troops overseas since World War II and Korea.[117]

As a result, the Canadian forces have increasing difficulty in keeping pace with new military technology. As a strong supporter of the United Nations, and given our long tradition of peacekeeping missions, further demands are likely to be placed on the Canadian Armed Forces.

The Committee recognizes that defence spending has undergone greater budgetary cuts than many other programs. These reductions are posing a challenge to our commitment to our allies and United Nations peacekeeping missions. **The Committee supports Canada's military, its traditions and its role in promoting peace and security. This role should be supported with appropriate levels of funding. The Committee requests that the Government of Canada embark upon a five-year plan for the revitalization and modernization of the Canadian Forces which would significantly increase the budget of the Department of National Defence as a percentage of GDP.**

117 Brief to the Committee, Ottawa, November 18, 1999, p. 2.

Defence Expenditures as of % GDP



LIST OF RECOMMENDATIONS

CHAPTER 1

The Committee recommends that the government present longer-term fiscal projections. We recommend that the planning horizon be five years.

The Committee recommends that the government establish a net debt to GDP target for the end of its planning horizon. For the next budget we suggest that the target be no more than 50%.

The Committee recommends that some precise formula or range be established for the measure of economic prudence in the future.

The Committee recommends that the Department of Finance continue to use the private sector consensus forecast for its own economic projections.

The Committee recommends that any unutilized portion of the Contingency Reserve should continue to go directly to debt reduction.

The Committee recommends that any time the full amount of the Contingency Reserve is not available for debt reduction, the difference should be added to the Contingency Reserve of the following year.

The Committee recognizes the government's commitment to the 50/50 formula over the course of this Parliament and recommends therefore that it be honoured. In the next Parliament, however, the Committee recommends that the government not now bind itself to any formula.

The Committee recommends that the federal government initiate a regulatory audit of all regulations to ensure relevancy and benefit of regulations in our current context. This audit should include a clear process and schedule for the elimination of undesirable regulations.

The Committee recommends that any new spending initiative be subject to the rigorous and detailed tests of the principles of Program Review.

CHAPTER 2

The Committee recommends that the government strive to keep the level of real per capita expenditures close to current levels. The Committee makes this recommendation with the full knowledge that maintaining government expenditures at current real per capita levels presents challenge given the rising cost of government programs.

The Committee recommends that personal income tax reform give high priority to ensuring that the personal income tax system meet the criteria of horizontal equity, particularly with respect to dependent children and disability.

As in previous years, the Committee recommends that the government increase the allowable foreign property content of RRSPs and other tax assisted retirement vehicles to 30% over a five-year period.

The Committee recommends that the following elements should be included in a five-year package of personal income tax reduction. At maturity, the following should be accomplished:

- A 15% increase in basic amounts.
- A reduction in the 26% middle tax rate to 23%.
- A substantial reduction in the benefit reduction rate applied to the Canada Child Tax Benefit.
- A 15% increase in the thresholds at which tax brackets take effect.
- A reduction in EI Premiums of 40 cents.
- An increase in RRSP limits by $2,000, over five years
- A reduction in the capital gains inclusion rate to 65%.
- The elimination of the 5% surtax.

The Committee recommends that the following elements should be included in a five year package of corporate tax reduction. At maturity, the following should be accomplished:

- A reduction in the general corporate income tax rate by 5 percentage points.
- A reduction in EI Premiums.
- A reduction in the capital gains inclusion rate.
- A reduction in capital taxes, in conjunction with provincial reductions, while at the same time harmonizing the tax base.

The Committee recommends that EI Premiums should continue to be reduced so as to gradually reach the break even rate.

The Committee recommends that the capital gains inclusion rate for gifts of appreciated property should be set at one-half the rate for capital gains in general, and should automatically be reduced whenever the government reduces the general inclusion rate.

The Committee recommends that the government give consideration to extending the properties that would be eligible for reduced capital gains inclusion rates and develop a mechanism that would make such a policy feasible.

The Committee recommends that RRSP limits be increased within the next five years and that indexation provisions be applied to the new, higher limit, which we support.

The Committee recommends that the federal government initiate a profound reform of the business tax system, designed to more substantially reduce business tax rates, restore neutrality and be appropriate for the new economic reality of global competition, factor mobility and industries based on innovation and human capital.

The Committee recommends that the federal government work with the provinces to develop common definitions of capital for tax purposes and a joint plan for the reduction of these taxes.

CHAPTER 3

The Committee urges the federal government, in collaboration with provincial governments, to examine the issue of shipbuilding in Canada and the ways this industry can meet its international challenges.

The Committee supports the Bank of Canada's policy for achieving price stability.

The Committee supports the continuation of Program Review so as to focus government attention to those areas in which it has an effective role to play.

The Committee continues to support past measures which enhance access to post-secondary education, provide tax support for higher education, and encourage education-related savings.

The Committee continues to support measures that promote the creation, and use, of new technologies.

The Committee continues to support greater liberalization of trade and investment.

The Committee recommends that the federal government initiate a new, long-term infrastructure program, in partnership with the provinces and municipalities, to fund new infrastructure initiatives. This program and its component investments must be subject to Program Review and meet the test of a Productivity Covenant. The Committee recommends that the federal government commit at least $500 million per year for at least five years.

The Committee recommends that a research infrastructure fund be established that would finance institutions' research-related costs flowing directly from other federal research grants.

CHAPTER 4

The Committee strongly supports the work of the Minister of Labour on the issue of homelessness. We await her report and we urge the federal government to review its findings and recommendations and to act on this issue as soon as possible. Furthermore, we endorse any social investment to better understand and address the causes of homelessness in Canada. We feel that all levels of governments — federal, provincial/territorial and municipal — must collaborate to solve this problem. The Committee recognizes that additional resources will likely be necessary, but we cannot make specific recommendations until that report is made public and examined.

The Committee urges the federal government to continue financially supporting the health information systems and innovation initiatives announced in the February 1999 Budget.

The Committee strongly believes that the federal government must continue its efforts to reduce the consumption of tobacco products, particularly those efforts aimed at preventing the onset of smoking among youth. Similarly the Committee believes the federal government must continue its efforts to reduce and prevent substance abuse.

To improve the prospects of the disabled who want to join the workforce and integrate more fully into the economic mainstream of Canadian society, the Committee fully supports the Opportunities Fund.

The Committee supports the National Child Benefit and recommends that it continue to play an important role in assisting lower-income families with children.

The Committee strongly supports the federal government's intention to make a third significant investment in the NCB in 2001 as indicated in the last Throne Speech.

The Committee believes that we must build upon the National Children's Agenda and, accordingly, recommends that the federal government pursue the development and implementation of the National Children's Agenda.

CHAPTER 5

The Committee supports the federal government's initiatives to become a model user of new technology in the delivery of its services. Given its size, the federal government could become a catalyst for the rest of the economy to do the same.

The Committee supports the following initiatives and recommends that the government move expeditiously to ensure that its own procedures and policies promote the utilization of new technologies:

- Bill C-6 which promotes privacy safeguards
- A technology-neutral tax system
- A legal environment that recognizes digital signatures
- A strong system of intellectual property protection that promotes the dispersion of new technology
- Support for electronic infrastructure and
- Deregulated markets

CHAPTER 6

The Committee recommends that the manner in which the government's policy of cost recovery is being implemented be subject to Program Review, a Productivity Covenant and a regulatory audit.

The federal government has an obligation to support farmers that are in distress because of the failure of the international community to deal adequately with this issue. We note that the House of Commons Standing Committee on Agriculture is currently studying this matter and await its report.

The Committee believes that the federal government should be mindful of the fact that other countries do not always follow our lead in international trade matters. When they do not, there can be significant consequences for Canadians. In such cases, the government has a certain obligation to those adversely affected as a result.

The Committee acknowledges that there is an inequity under the Income Tax Act regulations as it relates to early retirement and pension. We also understand that, although this issue was raised by fire fighters, it affects all Canadians involved in a public safety occupation. The Committee feels that these provisions should be revisited.

Witnesses requested that federal funding be restored at the sufficient level to ensure that RCMP contract policing obligations are respected. As a general principle, the Committee believes that such contracts should be honoured by the federal government, in both letter and spirit.

The Committee shares the view of witnesses that providing development assistance to developing countries can benefit the global economy. We also feel it is important for Canada to focus more firmly on human development initiatives as well as on long-term poverty reduction. Further, we believe that funds should be used for the purposes for which they were originally intended.

The Government of Canada could address the matter of local government development by appropriate incentives, matching and supporting the actions initiated by the communities. This could take the form, as it was successfully done in the past, through some projects with the collaboration of Human Resources Department Canada. However, the commitment will come first from local authorities, enterprises, and people, the stakeholders who have a better idea of what they need to fully participate in this new era.

The Committee supports Canada's military, its traditions and its role in promoting peace and security. This role should be supported with appropriate levels of funding. The Committee requests that the Government of Canada embark upon a five-year plan for the revitalization and modernization of the Canadian Forces which would significantly increase the budget of the Department of National Defence as a percentage of GDP.

APPENDIX A
Witnesses List

TUESDAY, NOVEMBER 2, 1999 (OTTAWA)

Department of Finance
Paul Martin, Minister of Finance

WEDNESDAY, NOVEMBER 3, 1999 (OTTAWA)

Canadian Chemical Producers' Association
Richard Paton, President and Chief Executive Officer
David J. Shearing, Senior Manager, Business and Economics

Canadian Construction Association
Michael Atkinson, President
Michael Butt, Chairman

Canadian Environment Industry Association
Colin Isaacs, Chair, National Policy Committee; President of Contemporary Information Analysis
Rebecca Last, Director of Programs and Policy

Canadian Federation of Agriculture
Bob Friesen, President

Canadian Pulp and Paper Association
Steve Stinson, Director, Finance and Business Issues

Climate Action Network Canada
John Bennett, Director, Atmosphere and Energy, Sierra Club of Canada
Rick Finlay, Pollution Probe

Coalition to Renew Canada's Infrastructure
Jim Facette, President
John D. Redfern, Chairman

Crop Protection Institute
Charles D. Milne, Vice-President, Government Affairs

Low Impact Renewable Energy Coalition
Frederick M. Gallagher, Managing Director, Vision Quest Windelectric Inc.; Director, Canadian Wind Energy Association
Jeff Passmore, Executive Vice-President, IOGEN Inc.; Vice-President, Canadian Renewable Fuel Association

Pembina Institute for Appropriate Development
Matthew Bramley, Senior Policy Analyst, Climate Change Program

Solar Energy Society of Canada Inc.
Stephen Pope, Past President

THURSDAY, NOVEMBER 4, 1999 (OTTAWA)

Aerospace Industries Association of Canada
Peter Smith, President and Chief Executive Officer

Assembly of First Nations
Phil Fontaine, National Chief
Clarence (Manny) Jules, Kamloops First Nation
Jack London, Legal Counsel

Association of Consulting Engineers of Canada
Jim Miller, Director, Engineering Division, Region of Ottawa-Carleton
Timothy Page, President

Automotive Industries Association of Canada
Michael Bryan, Chairman, Board of Directors
Beverlie Cook, Vice-President

Canadian Academy of Engineering
Philip Cockshutt, Executive Director

Canadian Association of University Teachers
David Robinson, Director of Public Policy

Canadian Bureau for International Education
Jim Fox, President
Jennifer Humphries, Director, Membership and Corporate Services

Canadian Consortium for Research

Francine Ford, Executive Director, Science Policy Officer, Canadian Association of Physicists

Don McDiarmid, Director, Professional Affairs, Canadian Association of Physicists

Canadian Co-operative Association

Lynne Toupin, Chief Executive Director

Bill Turner, President

Canadian Library Association

Leacy O'Brien, Associate Executive Director

Vicki Whitmell, Executive Director

Canadian Museums Association

Richard Darroch, Public Policy Officer

John G. McAvity, Executive Director

Heritage Canada Foundation

Brian Anthony, Executive Director

Humanities and Social Sciences Federation

Louise Robert, Executive Director

Garth Williams, Manager, Public Affairs

Insurance Bureau of Canada

George D. Anderson, President and Chief Executive Officer

Paul Kovacs, Senior Vice-President, Policy Development and Chief Economist

National Research Council of Canada

Arthur J. Carty, President

Natural Sciences and Engineering Research Council of Canada

Thomas A. Brzustowski, President

Partnership Group in Science and Engineering

Howard Alper, Past Chair

Denis A. St-Onge, Chair

Social Sciences and Humanities Research Council of Canada

Tim Brodhead, Chief Executive Officer, J.W. McConnell Family Foundation

Marc Renaud, President

MONDAY, NOVEMBER 8, 1999 (TORONTO)

Advisory Committee on Homeless and Socially Isolated Persons

Sharole Gabriel

Alison Kemper, Co-Chair

Alzheimer Society of Canada

Dale Goldhawk, Board Member; Chair, Public Policy Committee

Stephen E. Rudin, Executive Director

Association of Canadian Pension Management

Malcolm Hamilton, Board of Directors; Principal, William M. Mercer Ltd.

Gretchen Van Riesen, Chair, Advocacy and Government Relations Committee; Director, Pension and Benefits Policy, CIBC

Association of Municipalities of Ontario

Michael Power, President

Campaign 2000

Laurel Rothman, National Coordinator

Canadian Association for Community Living

Cheryl Gulliver, President

Connie Laurin-Bowie, Director, Policy and Programs

Canadian Bankers' Association

Robert B. Wells, Chair, Financial Affairs Committee; Executive Vice-President and Chief Financial Officer, Bank of Montreal

Mark Weseluck, Vice-President, Banking Operations

Canadian Ecumenical Jubilee Initiative

Dennis Howlett, Member, Steering Committee

David Pfrimmer, Chairperson, Commission on Justice and Peace, Canadian Council of Churches

Canadian Hardware and Housewares Manufacturers Association

Vaughn Crofford, President

Canadian Pensioners Concerned

Mae Harmon, Past President, Ontario Division

Ray MacLeod, Chair

Canadian Restaurant and Food Services Association

Michael Ferrabee, Vice-President, Government Affairs

Joyce Reynolds, Senior Director, Government Affairs

Canadian Retail Hardware Association

Robert Elliott, Executive Director

Canadian Retail Building Supply Council

Stephen Johns, Executive Director

Canadian Tooling and Machining Association

Del Bruce, Past President; President, Canadian Progressive Tool and Transfer Ltd.
Russell H. Gorham, General Manager

Centre for Social Justice

John Anderson, Board Member
David Langille, Co-Director

Chamber of Commerce of Kitchener-Waterloo

Linda Korgemets, C.A., Chairperson,Taxation Sub-Committee of the Federal and Provincial Affairs Committee

Childcare Education Foundation

Christa Freiler, Director, Child Poverty Action Group
Kerry McCuaig, Director

Childcare Resource and Research Unit

Martha Friendly, Coordinator, Adjunct Professor, University of Toronto

Citizens for Public Justice

Greg DeGroot-Maggetti, Socio-economic Concerns Coordinator
Gabrielle Mandell, National Social Action Committee
Wahida Valiante, Vice-President, Canadian Islamic Congress

Construction Trades Council

John Cartwright, Business Manager

Direct Sellers Association

W. Jack Millar, Tax Counsel, Millar Wyslobicky Kreklewetz
Paul Thériault, President

Employer Committee on Health Care — Ontario

Susan Bowyer, Consultant
Laurie Lowe, Director of Research and Product Development, Employee Benefits, Clarica

Gennum Corporation

H. Douglas Barber, President and Chief Executive Officer

Investment Funds Institute of Canada

Peter Bowen, Chair, Taxation Steering Committee; Vice-President and Fund Treasurer, Fidelity Investments; and 1998-1999 Chair
Jay Thomblison, Taxation Steering Committee; Manager, Taxation, AGF Management Inc.; and 1999-2000 Chair

Multi-Employer Benefit Plan Council of Canada

Mel Norton, Vice-President
Joan Tanaka, Vice-President

National Round Table on the Environment and the Economy

David McGuinty, Executive Director and Chief Executive Officer
Stuart Smith, Chair

Ontario Coalition for Better Child Care Network

Mary-Anne Bédard, Executive Director
Deirdra O'Sullivan

Ontario Public School Boards

Camille Quenneville, Director of Policy
Liz Sandals, President

Toronto Board of Trade

M. Elyse Allan, President and Chief Executive Officer
Terri Lohnes, Policy Advisor

University of Toronto

Heather Munroe-Blum, Vice-President, Research and International Relations
J. Robert S. Pritchard, President

Valiant Machine and Tool Inc.

Michael G. Solcz, President
Dan E. Uszynski, Quality Assurance Manager

As Individuals

Margaret Dinsdale
Nick Falvo, Community Worker
Alexandra Humphrey
Joseph Polito
John Smithin, Department of Economics and Schulick School of Business, York University

TUESDAY, NOVEMBER 9, 1999 (TORONTO)

American Federation of Musicians of the United States and Canada

Laura Brownell, Supervisor, Symphonic Services Division
Christine Little, Assistant to the Supervisor

Association of Canadian Publishers
Diane Davy, Council Member
Michael Harrison, President

C.D. Howe Institute
William B.P. Robson, Senior Policy Analyst

Canadian Association for Not-for-Profit RESP Dealers
Ken Goodwin, Co-Chair
Tom O'Shaughnessy, Co-Chair

Canadian e-Business Opportunities Roundtable
Sara Allan, Manager, Boston Consulting Group of Canada
John Eckert, Managing Partner, McLean Warson Capital
Ronan McGrath, President and Chief Information Officer, Shared Services, Rogers Cantel

Canadian Film and Television Production Association
Elizabeth McDonald, President and Chief Executive Officer
Steve Ord, Chair, Tax and Financing Committee
Linda Schuyler, Chair, Board of Directors

Canadian Nuclear Society
David Jackson, Professor (Adjunct) McMaster University

Canadian Urban Institute
John E.L. Farrow, President

City of Markham
Donald Cousens, Mayor

City of Toronto
Brad Duguid, Councillor; Chair, Community Services Committee
Jack Layton, Councillor; Chair, Environmental Task Force

College of Dental Hygienists of Ontario
Evie Jesin, President

Committee on Monetary and Economic Reform
William Krehm, Chairman

Construction Employment Group of Ontario
Bud Calligan, Member, Board of Directors
Eddie Thornton, Executive Director, Carpenters and Allied Workers — Local 27

Council for Business and the Arts in Canada
Sarah J.E. Iley, President and Chief Executive Officer
H.N.R. Jackman, Deputy Chair

Easter Seals/March of Dimes National Council
Paul Rainam, Provincial Manager of Government and Corporate Relations, Ontario March of Dimes
Duncan Readm, Past President, Ontario March of Dimes

Economic Community Starting Centre: Job Creation Inc.
Monique Bokya-Lokumo, Director
Mimi Mapasa, Coordinator

Friends of Canadian Broadcasting
Ian Morrison, Spokesperson

Labourer's International Union of North America
Joseph S. Mancinelli, International Vice-President, Central and Eastern Canada Regional Manager
Cosmo Mannella, Canadian Tri-Fund Director

National Action Committee on the Status of Women
Joan Grant-Cummings, President

National Association of Women and the Law
Kim Brooks, Member, Fiscal Policies Working Group

Nature Conservancy Canada
John Lounds, Executive Director
Thea Silver, Program Director

Neighborhoods' Forum
Ewen McQuaig, Vice-Chair
Lisa Stephens Immen, Chair

Ontario Coalition of Senior Citizens' Organizations
Hank Goldberg, Vice-President

Ontario Hospital Association
Tony Dagnone, President and Chief Executive Officer, London Health Sciences Centre
Robert K. Muir, Chief Operating Officer; Vice-President, Hospital Relations
Frank Norman, Chair Elect

Ontario Non-Profit Housing Association
Robin Campbell, Executive Director

Society of Rural Physicians of Canada

Keith MacLellan, Past President
Patty Vann, President

Toronto Disaster Relief Committee

Kira Heineck, Coordinator

Writers' Union of Canada

Christopher Moore, Chairperson

As Individuals

Anne Golden, President and Chief Executive Officer, United Way of Greater Toronto
Donald K. Johnson, Director, Toronto General and Western Hospital Foundation; Member, Advisory Board, Richard Ivey School of Business
Blaine and Jeanie Scott

MONDAY, NOVEMBER 15, 1999 (HALIFAX)

Association of Nova Scotia University Teachers

Chris Ferns, President

Atlantic Popular Education Network

Juan Telez, Member

Canadian Association for University Continuing Education

Jim Sharpe, Chairperson, External Relations Committee

Canadian Centre on Substance Abuse

Ed Fitzpatrick, Member of the Board

Canadian Federation of Students — Nova Scotia Component

Penny McCall Howard, N.S. National Executive Representative

Canadian Nature Federation

Kevin McNamee, Director, Wildlands Campaign

Canadian Pensioners Concerned

Joan F. Lay, President
Patricia MacLellan, Past President

Cape Breton Regional Municipality

David N. Muise, Mayor
John Whalley, Economist

Childcare Advocacy Association of Canada

Carla Bryden, Canadian Auto Workers; Member and General Vice-President, Nova Scotia Federation of Labour
Margie Vigneault, Nova Scotia Representative

City of Miramichi

Rupert Bernard, Mayor

Federation of New Brunswick Faculty Associations

Claude Dionne, Vice-President
Desmond A. Morley, Executive Director
Jack Vanderlinde, President

Horticulture Nova Scotia

Greg Webster, Human Resources Committee Chairperson; President, Webster Farms Ltd.

Independent Living Resource Centre

Mary Ennis, Member
Leon Mills, Chairperson

Information Technology Association of Canada

Gary Blandford, Director; President and Chief Executive Officer, ITI Education Corp.
Robert Crow, Vice-President, Policy
André Gauthier, Chairman of the Board; Senior Executive Vice-President, LGS Group

MacKillop Centre for Social Justice

Mary Boyd, Director

Metro Non-Profit Housing Association

Carol Charlebois, Executive Director

Metropolitan Halifax Chamber of Commerce

Michael A. Schmid, Federal Finance Chair
Ian Tramble, Member, Federal Finance Committee

Municipality of the County of Richmond

Richie Cotton, Warden
Gail Johnson, Councillor

New Brunswick Healthcare Association

Kelly Lamrock, Policy Analyst
Mike Poirier, Executive Director

Newfoundland and Labrador Federation of Labour

Wayne Butler, Secretary-Treasurer
Elaine Price, President

Newfoundland and Labrador School Boards Association

June Alteen, President

Nova Scotia Advisory Council on the Status of Women

Patricia Doyle-Bedwell, President
Stella Lord, Planning and Development Officer

Nova Scotia Cultural Network

Andrew David Terris, Executive Director

Nova Scotia Federation of Agriculture

Peter Hill, First Vice-President
Laurence Nason, Executive Director

Nova Scotia Federation of Labour

Les Holloway, General Vice-President

Nova Scotia Government Employees Union

Ian Johnson, Policy Analyst Researcher

Nova Scotia School Boards Association

Margaret A. Forbes, President

P.E.I. Action Canada Network

Mary Boyd, Chair

St. John's Board of Trade

Martin Lockyer, President
LoriLee Oates, Manager of Policy

Town of Lunenberg

Laurence Mawhinney, Mayor

Union of Nova Scotia Municipalities

Anna Allen, First Vice-President; Deputy Mayor, Town of Windsor
Duart MacAulay, President; Councillor of County of Inverness
Ken Simpson, Executive Director

As Individual

John D'Orsay

TUESDAY, NOVEMBER 16, 1999 (QUEBEC)

"Association des producteurs de films et de télévision du Québec (APFTQ)"

Raymond Bréard, President and Chief Executive officer
Luc Chatelain, Producer; Committee of Finance Member; Vice-President, Amerimage Spectra
Suzanne D'Amours, Consultant

Canadian Centre on Substance Abuse

Luc Chabot, Professor of Toxicology, University of Montreal

Canadian Employee Relocation Council

Thi Nguyen, President

Canadian Federation of Business School Deans

David Conrath, Former Dean, Michael G. de Groote School of Business, McMaster University
Timothy-Daniel Daus, Director of Operations
Bernard Garnier, Dean, Faculty of Administration Sciences, Laval University

"Chambre de commerce du Québec"

Michel Audet, President
Gaétan Gagné, Vice-President
Maurice Turgeon, Advisor

City of Quebec

Claude Cantin, Municipal Councillor
Louis Méthé, Development Councillor

"Coalition pour le renouvellement des infrastructures du Québec"

Martin Lapointe, Vice-President, Affairs Development
Gilles Vaillancourt, President

"Confédération des caisses populaires et d'économie Desjardins du Québec"

Hélène Bégin, Economist
Roger Champagne, Chief Tax Advisor
Yves Morency, Secretary of Governmental Relations

Confederation of National Trade Unions

Peter Bakvis, Assistant to the Executive Committee
Marc Laviolette, President

"Conseil du patronat du Québec"

Jacques Garon, Director, Research and Economy
Gilles Taillon, President

"Front d'action populaire en réaménagement urbain"

Julien Dallaire, Member, "Comité des citoyens et citoyennes du cartier St-Sauveur"
François Saillant, Coordinator
Lucie Villeneuve, Representative of "Comité des citoyens et citoyennes du quartier St-Sauveur"

Genome Canada

Martin Godbout, Executive Director
Jacques Simard, Director of Genetics, CHUL Research Centre

Laurentian Bank of Canada

André Dubuc, First Vice-President, Treasury and Risk Management
Simon Prévost, Chief Economist

"Union des producteurs agricoles du Québec"

Gratien D'Amours, Vice-President
Gilbert Lavoie, Economist

"Valorisation — Recherche Québec"

Gilbert Drouin, President — Chief Executive Officer

WEDNESDAY, NOVEMBER 17, 1999 (OTTAWA)

Building and Construction Trades Department

Philip Benson, Government Affairs
Joseph Maloney, Director of Canadian Affairs, National Office
Robert Robichaud, Staff Representative

Canada Foundation for Innovation

Carmen Charette, Senior Vice-President
David W. Strangway, President and Chief Executive Officer

Canadian Real Estate Association

Pierre Beauchamp, Chief Executive Officer
Gregory Klump, Senior Economist

Canadian Steel Producers' Association

Jean Van Loon, President

Federation of Canadian Municipalities

Sam Synard, President
Gilles Vaillancourt, Mayor of Laval, Québec

Hotel Association of Canada

Anthony P. Pollard, President

International Association of Fire Fighters

Erik Leicht, Pension Chair, Ontario Professional Fire Fighters Association
Sean P. McManus, Canadian Director

National Council of Women of Canada

Elizabeth Hutchinson, President
Shirley McBride, Economics Convenor

Retirement Income Coalition

Ian Markham, Actuary, KPMG
C.A. (Charlie) Pielsticker, Chair

THURSDAY, NOVEMBER 18, 1999 (OTTAWA)

Association of Canadian Community Colleges

Terry-Anne Boyles, Vice-President
Gerry Brown, President

Business Coalition on Cost Recovery

Jayson Myers, Senior Vice-President and Chief Economist, Alliance of Manufacturers and Exporters Canada
Jean Szkotnicki, President, Canadian Animal Health Institute

Canada Family Action Coalition

Peter Stock, National Affairs Director

Canadian Arts Summit

James D. Fleck, Chair, Advocacy Committee
Susan Glass, Chair
Sarah J.E. Iley, President and Chief Executive Officer, Council for Business and the Arts in Canada

Canadian Association of Insurance and Financial Advisors (CAIFA) / Conference for Advanced Life Underwriting (CALU)

Ted Ballantyne, Director, Advanced Tax Policy, Conference for Advanced Life Underwriting (CALU)
David Thibaudeau, President

Canadian Child Care Federation

Dianne Bascombe, Past Executive Director

Canadian Federation of Independent Business

Catherine Swift, President and Chief Executive Officer
Garth Whyte, Senior Vice-President, National Affairs

Canadian Wireless Telecommunications Association

Peter Barnes, President and Chief Executive Officer
J. David Farnes, Vice-President, Regulatory Affairs
Roger Poirier, Executive Vice-President

CATA Alliance

David E. Paterson, Executive Director

Conference of Defence Associations

Sean Henry, Senior Defence Analyst
Alain Pellerin, Executive Director

Co-operative Housing Federation of Canada

Thom Armstrong, Director, Corporate Services
Michael Shapcott, Manager, Communications and Government Relations, Ontario Region

Cultural Human Resources Council
Leah Geller, Marketing Director
Jean-Philippe Tabet, Executive Director

Fisheries Council of Canada
Patrick McGuinness, Vice-President

Genome Canada
Martin Godbout, Executive Director
Brian Harling, Executive Vice-President, Corporate Affairs, MDS Health Corporation
Peter McCann, President, Ag-West Biotech Inc.

Learning Disabilities Association of Canada
James Horan, Past President

National Children's Alliance
Harvey Weiner, Member

Railway Association of Canada
Robert H. Ballantyne, President

T-Base Research and Communications Inc.
Sharlyn Ayotte, President and Chief Executive Officer
Leonard J. Fowler, Jr., Chair and Chief Operating Officer

As Individuals
Sheridan J. Gardner
Neil B. McFadyen
Frank E. Stokes
Charles E. Van Wagner

FRIDAY, NOVEMBER 19, 1999 (OTTAWA)

Canadian Association of University Teachers
David Robinson, Director of Public Policy

Canadian Living Foundation
Pamela Heneault, Director of Government Relations

Canadian School Boards Association
Kathy LeGrow, President
Marie Pierce, Executive Director

Canadian Teachers' Federation
Harvey Weiner, Deputy Secretary General

Getting Landed Project
Ahmed Hashi, Coordinator
Michael Kerr, Chair, Media Committee, Karuna Community Services
Francisco Rico-Martinez, President, Canadian Council for Refugees

National Coalition on Housing and Homelessness
Frank Palmeter, Vice-President, Congress of Aboriginal People
Debbie Saidman, National Board Member

MONDAY, NOVEMBER 22, 1999 (CALGARY)

Agricore Ltd.
George Groeneveld, Vice-President

Alberta Association of Registered Nurses
Louise Rogers, President

Alberta Federation of Labour
Audrey M. Cormack, President

Alberta Urban Municipalities Association
Bob Hawkesworth, Director
Lorne Olsvik, President
Ernie Patterson, Mayor of Claresholm

Calgary Chamber of Commerce
Jack Grant, Chair, Tax Committee
Kevin Gregor, First Vice-President
David Smith, Second Vice-President

Calgary Homeless Foundation
Brian Olson, Board Member; Chair, Fund Raising Committee
Mark Phipps, Advisor
Peter Wallis, Acting President and Chief Executive Officer

Canadian Association of Gift Planners
William D. Hawley, Chair, Government Relations Committee

Canadian Association of Petroleum Producers
William A. Friley, Jr., Vice-Chairman; President and Chief Executive Officer, Triumph Energy Corporation
Greg L. Stringham, Vice-President, Markets and Fiscal Policy

Canadian Centre on Substance Abuse
Frances Dover, Member of the Board

Canadian Dehydrators Association
Garry Benoit, Executive Director

Canadian Federation of Independent Business
Dan Kelly, Vice-President, Prairie Region

Canadian Federation of Students — National Graduate Council

Joy Morris, National Executive Representative

City of Calgary

Paul A. Dawson, Chief Executive Officer
Al Duerr, Mayor

City of Edmonton

Randy Garvey, Chief Financial Officer
Wendy Kinsella, Deputy Mayor

Coal Association of Canada

Ken Myers, Treasurer, Fording Coal Ltd.

Confederation of Alberta Faculty Associations

Scott Grills, President
Alan Meech, Executive Director

Conference of Defence Associations

Paul Hughes, Advisor

Conference of Defence Associations Institute

Samuel E. Blakely, President

Council of Canadians with Disabilities

Laurie Beachell, National Co-ordinator

Edmonton Coalition on Homelessness Society

Frank Manzara, Board Member

Financial Executives Institute Canada

Peter W. Rollason, Chair, Government Affairs Committee

Health Sciences Association of Alberta

Elisabeth R. Ballermann, President

International Association of Fire Fighters

Bryan Neilson, President, Calgary Fire Fighters Association
Scott Wilcox, Recording Secretary, Calgary Fire Fighters Association

Kids First, Parent Association of Canada

Judy Arnall, Parent
Cathy Buchanan, National Secretary
Lynn Ferguson, Parent
Christine Scharl-Cornforth, Vice-President

MCC Employment Development

Donette Hjermenrude, Director

Municipal District of Rocky View

Peter Kivisto, Municipal Manager

People Empowering Themselves Against the System

Susan Bruce, Spokesperson; Chair Emeritus

Regional Health Authorities of Manitoba

André Rémillard, Chair, Council of Chief Executive Officers

Sembiosys

Andrew Baum, Chief Executive Officer

As Individuals

Harold Buchwald, Founding Member, Pitblado Buchwald Asper
Heather Gore-Hickman
T.A. (Ted) Siemens
Beverley Smith
Helen K. Steinkopf, President, Maitland B. Steinkopf Foundation for the Mentally Retarded

TUESDAY, NOVEMBER 23, 1999 (VANCOUVER)

British Columbia and Yukon Territory Building and Construction Trades Council

Joe Barrett, Researcher

British Columbia Aviation Council

Larry Legros, Airports Committee
G.N.(Gerry) Lloyd, President and Chief Executive Officer

British Columbia Chamber of Commerce

John R. Winter, President
Andrew Wynn-Williams, Manager of Policy Development

British Columbia Teachers' Federation

David Chudnovsky, President

Business Council of British Columbia

Jock Finlayson, Vice-President, Policy
Tim McEwan, Director, Programs and Policy

Canadian Association of Student Financial Aid Administrators

Lori Nolt, Secretary-Treasurer; Director, Student Awards and Financial Aid, University of Victoria
Jennifer Orum, Vice-President; Coordinator, Financial Aid and Awards, University of Victoria

Canadian CED Network

Mike Lewis, Chair, National Policy Council; Executive Director, Centre for Canadian Enterprises
Doug Weir, Executive Director

Canadian Centre for Policy Alternatives

Seth Klein, Director, B.C. Office
Marc Lee, Research Economist

City of Richmond

Greg Halsey-Brandt, Mayor

City of Vancouver

Philip W. Owen, Mayor

College Institute Educators' Association of B.C.

Roseanne Moran, Communications and Research Staff Representative
Cindy Oliver, Secretary-Treasurer
Maureen Shaw, President

Confederation of University Faculty Associations of British Columbia

Robert Clift, Executive Director
Jim Gaskell, President

Consulting Engineers of British Columbia

Kate Cockerill, Executive Director
Kerry K. Rudd, President

Corporation of the City of Vernon

Wayne McGrath, Mayor

David Suzuki Foundation

Dermot Foley, Energy Director
Jim Fulton, Executive Director
Gerry Scott, Climate Change Director

Greater Vancouver Chambers Transportation Planning Panel

Robert Milbourne, Chair; Director, Pacific Region, Hatch Associates

Greater Vancouver Regional District

Ken Cameron, Manager, Policy and Planning
Beth Johnson, City of Delta; Vice-Chair, Board of Directors; Chair, Transportation and Strategic Planning

Health Association of B.C.

Larry Odegard, Chief Executive Officer

Hospital Employees' Union

Fred Muzin, President

Housing and Homeless Network of BC

Linda Mix, Speaker

Indian Taxation Advisory Board

Clarence (Manny) Jules, Chairman

Pacific Corridor Enterprise Council

Peter Fraser, President

Tenants Rights Action Coalition

Vanessa Geary, Coordinator

Town of Fort Nelson — Northern Rockies Regional District

Dan Gray, Town Councillor and Regional Director

Union of British Columbia Municipalities

Corinne Lonsdale, Mayor, District of Squamish
Harriet Permut, Senior Policy Analyst

University of British Columbia

John Grace, Department of Chemical and Bio-Resource Engineering

University Presidents' Council of B.C.

Don J. Avison, President
Dean Goard, Secretary to the Council

Vancouver Board of Trade

David Bassett, Co-Chair, Tax Cut Task Force
Grayden Hayward, Director; President and Chief Executive Officer, Carrera Ventures Ltd.

Vancouver International Airport Authority

Tony Gugliotta, Vice-President of Finance
John Korenic, Director, Airline and Passenger Development
Joe Sulmona, Director

Working Group on Poverty

John Argue, Program Director

As Individual

Herbert Grubel, Professor of Economics, Simon Fraser University

WEDNESDAY, NOVEMBER 24, 1999 (REGINA)

Adult Children of Divorce, Canada

Joni Andrychuk, President

Ag-West Biotech Inc.

Peter McCann, President

Canadian Association of the Non-Employed

Joan Johannson, Chairperson

Cho!ces
George Harris, Member

City of Regina
Douglas R. Archer, Mayor

Community Action on Poverty
Joan Johannson, Member

Congress of Union Retirees of Canada
Al Cerilli, Executive Board Member-at-large
Wes Norheim, Member
Bob Walker, Secretary, Saskatchewan Government Superannuates Association

Federation of Saskatchewan Indian Nations
Don Ross, Executive Portfolio Director, Office of Vice Chief Cyr

International Association of Fire Fighters
Gerry Huget, President, Saskatchewan Professional Fire Fighters Association
Kevin Tetlow, Treasurer, Regina Professional Firefighters Association

Manitoba Farm Delegation
Andy Baker, National Farmers Union
Maxine Routledge, Member, Women's Institute

Pro-West Rally Group
Ralph Rein, Agriculture Committee

Regina Chamber of Commerce
Jim Deane, President
Bev Robertson, Volunteer; Member, Small Business Committee

Saskatchewan Association of Rural Municipalities
Aaron Deschene, Policy Analyst
Neil Hardy, Vice-President

Saskatchewan Canola Growers Association
Ray Hilderman, First Vice-President

Saskatchewan Chamber of Commerce
Norm Halldorson, Chairperson, Finance Committee
Kelly Mitchell, Vice Chair, Finance Committee

Saskatchewan Farm Support Review Committee
Harry Bastness, Chairman

Saskatchewan Ministry of Agriculture and Food
Dwain Lingenfelter, Minister

Saskatchewan School Trustees Association
Craig Melvin, Executive Director
Gary Shaddock, President

Saskatchewan Urban Municipalities Association
Mike Badham, President
Mervyn Norton, Senior Policy Analyst

Saskatchewan Wheat Pool
Lyle Knutson, Director
Daniel Schmeiser, Manager, Economic Analysis and Policy Development, Policy and Economic Research

SouthEast Concerned Agricultural Producers
Tom Cameron, Spokesperson
Murray Firth, Spokesperson

Trans-Canada #1 West Association
Bruce C. Anderson, Manager
Douglas R. Archer, President

University of Regina Faculty Association
Patricia Fleming, Executive Director
Paul Gingrich, Chair

University of Saskatchewan
Michael Atkinson, Vice-President (Academic)

Wynyard and District Chamber of Commerce
Darwin Brown, President

As Individuals
Elwin Hermanson, Leader of the Saskatchewan Party; Leader of the Official Opposition
John Keen

THURSDAY, NOVEMBER 25, 1999 (OTTAWA)

"Fédération de l'âge d'or du Québec"
François Legault, President
Nicole T. Moir, Executive Director

Air Transport Association of Canada
J. Clifford Mackay, President and Chief Executive Officer

Association of Universities and Colleges of Canada
Robert Best, Director, Government Relations and Public Affairs
Robert J. Giroux, President and Chief Executive Officer

Business Council on National Issues

Sam T. Boutziouvis, Vice-President, International Trade and Global Economics
Thomas d'Aquino, President and Chief Executive

Canadian Automobile Association

Elly Meister, Vice-President, Public Affairs and Communications
Leanne Wright, Research, Public Affairs and Communications

Canadian Automotive Repair and Service Council

Keith Lancastle, Spokesperson

Canadian Chamber of Commerce

Nancy Hughes Anthony, President and Chief Executive Officer
Dale Orr, Senior Vice-President, WEFA Group

Canadian Conference of the Arts

Megan Williams, National Director

Canadian Council on Social Development

David I. Hay, Vice-President
David Ross, Executive Director
Katherine Scott, Senior Policy Associate

Canadian Federation of Students — National Office

Michael Conlon, National Chairperson, National Graduate Council

Canadian Housing and Renewal Association

Sharon Chisholm, Executive Director

Canadian Labour Congress

Andrew Jackson, Senior Economist

Canadian Life and Health Insurance Association Inc.

Mark R. Daniels, President
James Witol, Vice-President, Taxation and Research

Canadian Trucking Alliance

David Bradley, Chief Executive Officer
Graham Cooper, Senior Vice-President

Canadian Union of Public Employees

Morna Ballantyne, Managing Director, National Services
Jane Stinson, Director of Research

Canadian Urban Transit Association

Frank McCarey, Chair
Michael Roschlau, President and Chief Executive Officer

National Anti-Poverty Organization

Mike Farrell, Assistant Director
Laurie Rektor, Executive Director

National Task Force to Promote Employer-Provided Tax-Exempt Transit Passes

Donna-Lynn Ahee, Project Manager
Gail Logan, President, Ottawa Board of Trade
Amelia Shaw, Manager, Public Affairs Canadian Urban Transit Association (CUTA)

Results Canada

Jean-François Tardif, National Coordinator

MONDAY, NOVEMBER 29, 1999 (OTTAWA)

Canadian Cancer Society

Kenneth Kyle, Director of Public Issues

Coalition for Biomedical and Health Research

Barry D. McLennan, Chair
Charles Pitts, Executive Director

Council for Health Research in Canada

Pierre Cadieux, Executive Director
David Hill, Chair

Heart and Stroke Foundation of Canada

Allan Lefever

Multiple Sclerosis Society of Canada

Nickie Cassidy, National Social Action Volunteer

National Voluntary Organizations

Penelope Marrett, Director, Health Issues

Sidelines Canada

Kathryn Maclean, Executive Director
Don Moors, Member of the Board of Directors

TUESDAY, NOVEMBER 30, 1999 (OTTAWA)

Action Canada for Population and Development

Ann Burnett, Parliamentary Affairs Coordinator
Katherine McDonald, Executive Director

Canadian Association of Railway Suppliers

Peter McGuire, Executive Director

Canadian Automobile Dealers Association
Martin Smith, Technician, Park Pontiac, Winnipeg, MB
Jennifer Tomas, Technician, Turpin Group, Ottawa, ON

Canadian Council for International Co-operation
Betty Plewes, President and Chief Executive Officer

Canadian Dental Association
John Diggens, President

Canadian Healthcare Association
Sharon Sholzberg-Gray, President and Chief Executive Officer

Canadian Institute of Chartered Accountants
Elaine Sibson, FCA, Member, Government Affairs Committee
Peter F. Wilkinson, Director, Government Affairs

Canadian Medical Association
Hugh E. Scully, President
Peter Vaughan, Secretary General and Chief Executive Officer

Canadian National Institute for the Blind
Fran Cutler, National Board Member
Angelo Nikias, National Director, Government Relations, International Liaison

Canadian Nurses Association
Mary Ellen Jeans, Executive Director

Canadian Pharmacists Association
Jeff W. Poston, Executive Director
Noëlle-Dominique Willems, Director, Government and Public Affairs

City Centre Coalition
Campbell Robertson, Chair

City of Moncton
Brian F. P. Murphy, Mayor
Al Strang, City Manager

City of Timmins
Victor Power, Mayor

Coalition of National Voluntary Organizations
Al Hatton, Executive Director

Community Foundations of Canada
Barbara McInnes, Vice-Chair

Foundation for Educational Exchange Between Canada and the United States of America
Victor Konrad, Executive Director
David Walker, President, West-Can Consultants

HEAL — Health Action Lobby
Dan Stapleton, Chief Executive Officer, Canadian Physiotherapy Association

North-South Institute
Roy Culpeper, President
John Serieux, Researcher

Pension Investment Association of Canada
Russell J. Hiscock, Member, Government Relations Committee
Donald T. Walcot, Member, Government Relations Committee and President

Portland Hotel Society
Liz Evans, Associate Executive Director

Prospectors and Developers Association of Canada
David Comba, Director
John A. Hansuld, Past President, Central Asia Gold Fields Corporation

Retail Council of Canada
Brian Rudderham, Controller, Wal-Mart Canada Inc.
Peter Woolford, Senior Vice-President, Policy

WEDNESDAY, DECEMBER 1, 1999 (OTTAWA)

"Association de la recherche industrielle du Québec"
Albert De Luca, Vice-President of the Board; Associate, Sansom Bélair Deloitte and Touche
Claude Demers, President and Chief Executive Officer
Perry Niro, Public Affairs Director

Association of Canadian Airport Duty Free Operators
Guerrick Barnett, President; Chief Financial Officer, Nuance Global Traders North America
Daniel Boller, S. Air Relations, Zurich, Switzerland

Caledon Institute
Ken Battle, President

Canadian Alliance of Student Associations

Jason Aebig, National Director

Canadian Taxpayers' Federation

Walter Robinson, Federal Director

Green Budget Coalition

Julie Gelfand, Chair; Executive Director, Canadian Nature Federation

John Moffet, Consultant, Resource Futures International

Marine Workers' Federation — CAW

Robert Chernecki, Assistant to the President

Richard Gauvin, President, "Syndicat des Travailleurs du Chantier Naval de Lauzon Inc."

Les Holloway, Executive Director

Gary Marr, President

Terry O'Toole, President, Saint John Local Marine Workers Federation

Philippe Tremblay, "Fédération de la Métallurgie Inc., CSN"

National Association of Friendship Centres

Denis Francis, President

Marc Maracle, Executive Director

Regional Municipality of Ottawa-Carleton

Clive Doucet, Regional Councillor

Helen Gault, Director of Planning and Development, OC Transpo

Diane Holmes, Regional Councillor; Chair, Transportation Committee

SUBBOR — Super Blue Box Recycling Corp.

Mike Sommerville, Chief Financial Officer

Gregory Vogt, President

THURSDAY, DECEMBER 2, 1999 (OTTAWA)

Bloc Québécois

Antoine Dubé (Lévis-et-Chutes-de-la-Chaudière)

Gilles Duceppe (Laurier—Sainte-Marie), Leader

Yvan Loubier (Saint-Hyacinthe—Bagot), Finance Critic

Canadian Automatic Merchandising Association

Don Braden, Manager, Public Affairs

Jean-François Marchand, Member

Dan Stewart, President

Canadian Centre on Substance Abuse

Jacques Lecavalier, Associate

Michel Perron, Executive Director

Canadian Professional Sales Association

Terry Ruffel, President

Income Protection Working Group

Sarah Shartal, Coordinator

Ontario Municipal Employees Retirement System

Michael Beswick, Senior Vice-President, Pensions

Susan O'Gorman, Chair

As Individuals

Pierre Fortin, Department of Economics, University of Quebec in Montreal

Andrew Jackson, Chief Economist, Canadian Labour Congress

David Laidler, Department of Economics, University of Western Ontario

John McCallum, Senior Vice-President and Chief Economist, Royal Bank of Canada

Joshua Mendelsohn, Senior Vice-President and Chief Economist, Canadian Imperial Bank of Commerce

Tim O'Neill, Executive Vice-President and Chief Economist, Bank of Montreal

William B.P. Robson, Senior Policy Analyst, C.D. Howe Institute

David Rosenberg, Vice-President and Senior Economist, Nesbit Burns

Jim Stanford, Economist, CAW Canada

Marc Van Audenrode, Chair, Economics Department, Laval University

Thomas A. Wilson, Director, Policy and Economic Analysis Program, University of Toronto

APPENDIX B
List of Submissions

- Action Canada for Population and Development
- Adult Children of Divorce, Canada
- Advanced Education Council of British Columbia
- Advisory Committee on Homeless and Socially Isolated Persons
- Aerospace Industries Association of Canada
- Ag-West Biotech Inc.
- Agricore Ltd.
- Air Transport Association of Canada
- Alberta Association of Registered Nurses
- Alberta Chambers of Commerce
- Alberta Federation of Labour
- Alberta Urban Municipalities Association
- Alliance of Manufacturers & Exporters Canada
- Alzheimer Society of Canada
- Assembly of First Nations
- "Association de la recherche industrielle du Québec"
- "Association des producteurs de films et de télévision du Québec (APFTQ)"
- Association of Canadian Airport Duty Free Operators
- Association of Canadian Community Colleges
- Association of Canadian Pension Management
- Association of Canadian Publishers
- Association of Consulting Engineers of Canada
- Association of Municipalities of Ontario
- Association of Nova Scotia University Teachers
- Association of Universities and Colleges of Canada
- Atlantic Popular Education Network
- Automotive Industries Association of Canada
- Bank of Montreal
- British Columbia and Yukon Territory Building and Construction Trades Council
- British Columbia Aviation Council
- British Columbia Chamber of Commerce
- British Columbia Teachers' Federation
- Building and Construction Trades Department
- Business Council of British Columbia
- C.D. Howe Institute
- Caledon Institute
- Calgary Chamber of Commerce
- Calgary Homeless Foundation
- Campaign 2000
- Campaign Against Child Poverty
- Canada Family Action Coalition
- Canada Foundation for Innovation
- Canada's Association for the Fifty-Plus
- Canadian Academy of Engineering
- Canadian Alliance of Student Associations
- Canadian Arts Summit
- Canadian Association for Community Living
- Canadian Association for Not-for-Profit RESP Dealers
- Canadian Association for Renewable Energies
- Canadian Association for University Continuing Education
- Canadian Association of Gift Planners
- Canadian Association of Independent Living Centres
- Canadian Association of Insurance and Financial Advisors (CAIFA)/Conference for Canadian Advanced Life Underwriting (CALU)
- Canadian Association of Petroleum Producers
- Canadian Association of Railway Suppliers
- Canadian Association of Student Financial Aid Administrators
- Canadian Association of the Non-Employed
- Canadian Association of University Teachers
- Canadian Automatic Merchandising Association
- Canadian Automobile Association

- Canadian Automotive Repair and Service Council
- Canadian Bankers' Association
- Canadian Bureau for International Education
- Canadian Cancer Society
- Canadian CED Network
- Canadian Centre for Policy Alternatives
- Canadian Centre on Substance Abuse
- Canadian Chamber of Commerce
- Canadian Chemical Producers' Association
- Canadian Child Care Federation
- Canadian Co-operative Association
- Canadian Conference of the Arts
- Canadian Consortium for Research
- Canadian Construction Association
- Canadian Council for International Co-operation
- Canadian Council on Social Development
- Canadian Dehydrators Association
- Canadian Dental Association
- Canadian e-Business Opportunities Roundtable
- Canadian Employee Relocation Council
- Canadian Environment Industry Association
- Canadian Federation of Agriculture
- Canadian Federation of Business School Deans
- Canadian Federation of Independent Business
- Canadian Federation of Students — National Graduate Council
- Canadian Federation of Students — National Office
- Canadian Federation of Students — Nova Scotia Component
- Canadian Film and Television Production Association
- Canadian Hardware and Housewares Manufacturers Association
- Canadian Healthcare Association
- Canadian Housing and Renewal Association
- Canadian Institute of Chartered Accountants
- Canadian Jewellers Association
- Canadian Labour Congress
- Canadian Library Association
- Canadian Life and Health Insurance Association Inc.
- Canadian Living Foundation
- Canadian Medical Association
- Canadian Museums Association
- Canadian National
- Canadian National Institute for the Blind
- Canadian Nature Federation
- Canadian Nurses Association
- Canadian Pensioners Concerned
- Canadian Pharmacists Association
- Canadian Printing Industries Association
- Canadian Professional Sales Association
- Canadian Pulp and Paper Association
- Canadian Real Estate Association
- Canadian Restaurant and Food Services Association
- Canadian Retail Building Supply Council
- Canadian Retail Hardware Association
- Canadian School Boards Association
- Canadian Solar Industries Associations
- Canadian Steel Producers' Association
- Canadian Taxpayers' Federation
- Canadian Teachers' Federation
- Canadian Tooling and Machining Association
- Canadian Trucking Alliance
- Canadian Union of Public Employees
- Canadian Union of Public Employees (Airline Division)
- Canadian Union of Public Employees Local 2204 Child Care Workers of Eastern Ontario
- Canadian Urban Institute
- Canadian Wind Energy Association
- Canadian Wireless Telecommunications Association
- Cape Breton Regional Municipality
- CATA Alliance
- Centre for Social Justice
- "Centre-Ressources pour la Vie Autonome : Région Bas-Saint-Laurent inc."
- Chamber of Commerce of Kitchener-Waterloo
- "Chambre de commerce du Québec"

- Childcare Advocacy Association of Canada
- Childcare Resource and Research Unit
- Cho!ces
- Citizens for Public Justice
- City of Calgary
- City of Edmonton
- City of Markham
- City of Miramichi
- City of Moncton
- City of Prince George
- City of Quebec
- City of Richmond
- City of Timmins
- City of Toronto
- City of Vancouver
- City of Vaughan
- Climate Action Network Canada
- Co-operative Housing Federation of Canada
- Coal Association of Canada
- "Coalition pour le renouvellement des infrastructures du Québec"
- Coalition to Renew Canada's Infrastructure
- College Institute Educators' Association of B.C.
- College of Dental Hygienists of Ontario
- Committee on Monetary and Economic Reform
- Community Foundations of Canada
- "Confédération des caisses populaires et d'économie Desjardins du Québec"
- Confederation of Alberta Faculty Associations
- Confederation of National Trade Unions
- Confederation of University Faculty Associations of British Columbia
- Conference of Defence Associations
- Congress of Union Retirees of Canada
- "Conseil du patronat du Québec"
- Construction Employment Group of Ontario
- Construction Trades Council
- Consulting Engineers of British Columbia
- Corporation of the City of Vernon
- Corporation of the Town of Kirkland Lake
- Council for Business and the Arts in Canada
- Council for Health Research in Canada
- Council of Canadians with Disabilities
- Credit Union Central of Canada
- Jean-Claude Croft
- Crop Protection Institute
- Cultural Human Resources Council
- David Suzuki Foundation
- Tony De Furia
- Department of Finance
- Margaret Dinsdale
- Direct Sellers Association
- Dow Chemical Canada Inc.
- Earth Energy Society of Canada
- Easter Seals/March of Dimes National Council
- Economic Community Starting Centre: Job Creation Inc.
- Edmonton Coalition on Homelessness Society
- Employer Committee on Health Care — Ontario
- Federation of Canadian Municipalities
- Federation of New Brunswick Faculty Associations
- Federation of Saskatchewan Indian Nations
- Financial Executives Institute Canada
- Fisheries Council of Canada
- "Forum des Maires"
- Foundation for Educational Exchange Between Canada and the United States of America
- Pierre Fortin
- Fraser Institute
- Friends of Canadian Broadcasting
- "Front d'action populaire en réaménagement urbain"
- Doug Gardner
- Genome Canada
- Getting Landed Project
- Craig Goodall
- Heather Gore-Hickman
- Greater Vancouver Regional District

- Growing Up Healthy Downtown
- Herbert Grubel
- HEAL — Health Action Lobby
- Health Association of B.C.
- Health Sciences Association of Alberta
- Heart and Stroke Foundation of Canada
- Heritage Canada Foundation
- Horticulture Nova Scotia
- Hospital Employees' Union
- Hotel Association of Canada
- Humanities and Social Sciences Federation
- Alexandra Humphrey
- Income Protection Working Group
- Independent Living Resource Centre
- Indian Taxation Advisory Board
- Information Technology Association of Canada
- Insurance Bureau of Canada
- International Association of Fire Fighters
- Investment Funds Institute of Canada
- David Jackson
- Donald Johnson
- John Keen
- Kids First Parent Association of Canada
- Labourer's International Union of North America
- David Laidler
- Laurentian Bank of Canada
- Learning Disabilities Association of Canada
- Manitoba Association of School Trustees
- Manitoba Farm Delegation
- Marine Workers' Federation — CAW
- Neil McFadyen
- Medical Research Council of Canada
- Medical Society of Prince Edward Island
- Metro Non-Profit Housing Association
- Metropolitan Halifax Chamber of Commerce
- Mining Association of Canada (The)
- Multi-Employer Benefit Plan Council of Canada
- Multiple Sclerosis Society of Canada
- Municipal District of Rocky View
- National Action Committee on the Status of Women
- National Anti-Poverty Organization
- National Association of Friendship Centres
- National Association of Women and the Law
- National Children's Alliance
- National Coalition on Housing and Homelessness
- National Conference of Insurance Legislators
- National Council of Welfare
- National Council of Women of Canada
- National Research Council of Canada
- National Round Table on the Environment and the Economy
- National Task Force to Promote Employer-Provided Tax-Exempt Transit Passes
- National Voluntary Organizations
- National Voluntary Organizations Working in Health
- Natural Sciences and Engineering Research Council of Canada
- Nature Conservancy Canada
- New Brunswick Chamber of Commerce
- Newfoundland and Labrador Federation of Labour
- Newfoundland and Labrador School Boards Association
- North-South Institute
- Nova Scotia Advisory Council on the Status of Women
- Nova Scotia Cultural Network
- Nova Scotia Federation of Agriculture
- Nova Scotia Government Employees Union
- Nova Scotia School Boards Association
- Tim O'Neill
- Ontario Coalition for Better Child Care Network
- Ontario Hospital Association
- Ontario Municipal Employees Retirement System
- Ontario Non-Profit Housing Association
- Ontario Public School Boards
- Ontario Society (Coalition) of Senior Citizens' Organizations
- Ottawa-Carleton Child Care Association

- Partnership Group in Science and Engineering
- Pension Investment Association of Canada
- People Empowering Themselves Against the System
- Periodical Writers Association of Canada
- Joseph Polito
- Portland Hotel Society
- Project Genesis
- Prospectors and Developers Association of Canada
- Quebec Federation of Senior Citizens
- Railway Association of Canada
- Regina Chamber of Commerce
- Regional Health Authorities of Manitoba
- Regional Municipality of Ottawa-Carleton
- Results Canada
- Retail Council of Canada
- Retirement Income Coalition
- RRSP Alliance
- Hugh Rowe
- Ryka Blow Molds Ltd.
- Saskatchewan Association of Rural Municipalities
- Saskatchewan Chamber of Commerce
- Saskatchewan School Trustees Association
- Saskatchewan Urban Municipalities Association
- Saskatchewan Wheat Pool
- Savco Food Services Ltd.
- Blaine & Jeanie Scott
- Sembiosys
- Sidelines Canada
- T.A. (Ted) Siemens
- Beverley Smith
- Social Sciences and Humanities Research Council of Canada
- Society of Rural Physicians of Canada
- Solar Energy Society of Canada Inc.
- SouthEast Concerned Agricultural Producers
- St. John's Board of Trade
- Jim Stanford
- Helen Steinkopf
- Frank Stokes
- SUBBOR — Super Blue Box Recycling Corp.
- T-Base Research & Communications Inc.
- Thunder Bay Independent Living Resource Centre
- Toronto Board of Trade
- Toronto Disaster Relief Committee
- Town of Fort Nelson — Northern Rockies Regional District
- Town of Lunenberg
- Trans-Canada #1 West Association
- "Union des producteurs agricoles du Québec"
- Union of Nova Scotia Municipalities
- University of British Columbia
- University of Regina Faculty Association
- University of Victoria
- University Presidents' Council of B.C.
- Vancouver Board of Trade
- Vancouver International Airport Authority
- W. Garfield Weston Foundation
- Charles E. Van Wagner
- Henry White
- Thomas Wilson
- Working Group on Poverty
- World University Service of Canada
- Writers' Union of Canada

Members of Parliament

Who Held Townhall Meetings on Pre-budget Consultations

Jean Augustine, M.P.	Etobicoke—Lakeshore (ON)
Gérard Asselin, M.P.	Charlevoix (QC)
Claude Bachand, M.P.	Saint-Jean (QC)
Eleni Bakopanos, M.P.	Ahuntsic (QC)
Michel Bellehumeur, M.P.	Berthier—Montcalm (QC)
Carolyn Bennett, M.P.	St. Paul's (ON)
Stéphane Bergeron, M.P.	Verchères—Les-Patriotes (QC)
Maurizio Bevilacqua, M.P.	Vaughan—King—Aurora (ON)
Sarmite Bulte, M.P.	Parkdale—High Park (ON)
John Cannis, M.P.	Scarborough Centre (ON)
René Canuel, M.P.	Matapédia—Matane (QC)
Serge Cardin, M.P.	Sherbrooke (QC)
Brenda Chamberlain, M.P.	Guelph—Wellington (ON)
Hon. Raymond Chan, P.C., M.P.	Richmond (BC)
Jean-Guy Chrétien, M.P.	Frontenac—Mégantic (QC)
Paul Crête, M.P.	Kamouraska—Rivière-du-Loup—Témiscouata—Les Basques (QC)
Roy Cullen, M.P.	Etobicoke North (ON)
Madeleine Dalphond-Guiral, M.P.	Laval-Centre (QC)
Maud Debien, M.P.	Laval-Est (QC)
Odina Desrochers, M.P.	Lotbinière (QC)
Antoine Dubé, M.P.	Lévis-et-Chutes-de-la-Chaudière (QC)
Gilles Duceppe, M.P.	Laurier—Sainte-Marie (QC)
Joe Fontana, M.P.	London North Centre (ON)
Ghislain Fournier, M.P.	Manicouagan (QC)
Christiane Gagnon, M.P.	Québec (QC)
Michel Gauthier, M.P.	Roberval (QC)
Jocelyne Girard-Bujold, M.P.	Jonquière (QC)
Maurice Godin, M.P.	Châteauguay (QC)
Monique Guay, M.P.	Laurentides (QC)
Michel Guimond, M.P.	Beauport—Montmorency—Côte-de-Beaupré—Île-d'Orléans (QC)
John Harvard, M.P.	Charleswood St. James—Assiniboia (MN)
Francine Lalonde, M.P.	Mercier (QC)
René Laurin, M.P.	Joliette (QC)
Derek Lee, M.P.	Scarborough—Rouge River (ON)
Sophia Leung, M.P.	Vancouver Kingsway (BC)
Yvan Loubier, M.P.	Saint-Hyacinthe—Bagot (QC)

Steve Mahoney, M.P.	Scarborough East (ON)
Richard Marceau, M.P.	Mississauga West (ON)
Jean-Paul Marchand, M.P.	Charlesbourg (QC)
John McKay, M.P.	Québec East (QC)
Paul Mercier, M.P.	Terrebonne—Blainville (QC)
Hon. Andy Mitchell, P.C., M.P.	Parry Sound—Muskoka (ON)
Hon. Lorne Nystrom, P.C., M.P.	Regina—Qu'Appelle (SK)
Janko Peric, M.P.	Cambridge (ON)
Gilles Perron, M.P.	Rivière-des-Mille-Îles (QC)
Pauline Picard, M.P.	Drummond (QC)
Louis Plamondon, M.P.	Bas-Richelieu—Nicolet—Bécancour (QC)
George Proud, M.P.	Hillsborough (PEI)
Karen Redman, M.P.	Kitchener Centre (ON)
Yves Rocheleau, M.P.	Trois-Rivières (QC)
Caroline St-Hilaire, M.P.	Longueuil (QC)
Benoît Sauvageau, M.P.	Repentigny (QC)
Andy Scott, M.P.	Fredericton (NB)
Hon. Jane Stewart, P.C., M.P.	Brant (ON)
Darrel Stinson, M.P.	Okanagan—Shuswap (BC)
Paul Szabo, M.P.	Mississauga South (ON)
Paddy Torsney, M.P.	Burlington (ON)
Stéphan Tremblay, M.P.	Lac-Saint-Jean (QC)
Tony Valeri, M.P.	Stoney Creek (ON)
Pierrette Venne, M.P.	Saint-Bruno—Saint-Hubert (QC)
Tom Wappel, M.P.	Scarborough Southwest (ON)
Susan Whelan, M.P.	Essex (ON)

A copy of the relevant Minutes of Proceedings (*Meeting No. 43*) is tabled.

Respectfully submitted,

Maurizio Bevilacqua, M.P.
Chair

Minority Report by the Official Opposition of Canada

This minority report is our precursor to the Official Opposition's full pre-budget submission to the Finance Minister that is released annually each January.

Given that these pre-budget hearings are always top-heavy with interest groups, this year's strong consensus around tax relief was remarkable. It should be clear to the Finance Minister now that — as we've been saying for years — any budget without substantial, immediate, across-the-board tax relief will be unacceptable to the Canadian people. The public will no longer accept empty promises of tax relief somewhere off in the future. And while the Finance Committee's Majority Report does make that rhetorical leap into delivering tax relief to Canadians, a number of issues have us worrying about their true level of commitment.

> *"Very often in the past, Finance Committee Pre-Budget Reports have been like trailers in a hyped-up Hollywood movie. The previews look really good in December but when you show up for the movie on Budget Day you're really disappointed . . . and you don't get your money back. You don't get your tax cut."*
>
> *-Walter Robinson,Canadian Taxpayers Federation*

50/50 Promise — The main stumbling block to any meaningful tax and debt relief program is in the governments own 50/50 plan to spend away half of any surpluses. They are on record to spend half of any projected surpluses on new spending and apply the remaining half to an ill-defined mix of debt and tax reductions. The final majority opinion of the Finance Committee's Pre-budget Report endorsed continuing this action.

The Official Opposition notes that despite widespread media reports that a majority of the committee had voted to remove this 50/50 promise from the draft report, including extensive quotes from Liberal members who had allegedly voted this clause down, the final version of the report had the original 50/50 promise back in. This massive flip flop comes as no surprise to the Official Opposition, since there is an obvious and growing split within the government's own ranks. As of today, the tax and spenders within this government appear to be winning the battle.

The fact that the final Report promises both adherence to the government's foolish 50-50 promise **and** a $46 billion reduction in taxes, causes us to question the sincerity of this governments true commitment to meaningful tax relief. Clearly the government members on the committee are attempting to "have their cake and eat it too".

Given this obvious split within their own ranks, the Official Opposition has to question the level of this government's true commitment to meaningful tax relief. Their record to date tells otherwise.

Spending: In the 1997 federal election the Official Opposition was the only political party to argue for strict limits on spending. Today many others, including the general public, are arguing for spending limits.

Yet this government continues to sell Canadians on the idea that the budget spending cuts of the past five years have gone too far and major spending needs to occur. It just isn't so. According to the

National Accounts of Canada, government program spending per person has never been higher than it is today. The accounts reveal that spending hit an historic high during the 1990-91 recession and has stayed at that level, in real terms, ever since. What makes the governments ruse even more scandalous is the fact that the falling unemployment rate means billions in savings in unemployment insurance and welfare benefits which in turn should mean falling government spending per person. But to date these savings have disappeared without a trace into the maw of government.

Then there is the question of how this government spends tax dollars. While grants go to special interest groups, business and millennium projects, essential funds are denied to Canada's peacekeeping troops, the RCMP and Prairie farmers suffering under the worst farm crisis in 60 years. Could it be any clearer? This government daily demonstrates that they are nowhere near as careful with taxpayers' money as are the taxpayers themselves.

Additional evidence that the government has not changed its tax-and-spend ways is the lack of any permanent program review mechanism for the comprehensive examination of existing programs. Since their temporary Expenditure Management System (that capped government spending by requiring that all new projects be financed with funds reallocated from existing programs) was quickly eliminated once the books were into surplus, this calls into question the true level of their commitment towards expenditure control. The Official Opposition believes such programs should be a permanent fixture of government.

Analysis of the government's interim financial statements for September 1999 indicates that the taps to new spending are clearly open. Halfway through the current fiscal year, 1999-2000, program spending is up $1.7 billion, or 3.4% over the same period last year. There is a clear split within the government's own caucus and the spenders are winning.

A second issue is of concern to the Official Opposition. The pessimistic budgeting practices of the Finance Minister may have had benign consequences to the bottom line when we were in a deficit position, but this is not the case in an era of budget surpluses. In fact, the Auditor General wrote in his 1999 Report that this budgeting process "biases government decisions toward higher spending." There is no indication that this practice has changed at all.

Debt Management — A second question to this government's true fiscal commitment lies in their failure to offer any substantive debt repayment schedule in legislation. Canada's national debt currently exceeds 60% of our GDP, while the G-7 average is 45.8%. Of G-7 nations, only Italy has a larger public debt than Canada.[1] Certainly with a net public debt at the end of 1998-99 of $577 billion an argument can be easily made that if revenues exceed estimates and current expenditure needs, these surpluses should be used to pay down more of the national debt than is currently proposed by the government majority members of this committee.

In particular, the Official Opposition believes that debt reduction should rank ahead of ad hoc spending initiatives. In addition to creating this bias towards spending, the Auditor General notes in his November 1999 Report that "[t]he current approach to budget planning also leads to a pro-cyclical bias, adding stimulus when the economy is strong and removing stimulus when the economy is weak." Such pro-cyclical stimulus is counter to effective fiscal policy and exacerbates normal swings in the business cycle. Appropriate fiscal policy would add stimulus when the economy is weak to dampen the variance of the business cycle.

Tax Relief — Outside of partisanship and ideological differences, the need for tax relief and tax reform is very real. The Official Opposition has long called for major tax relief. We will outline the size of our proposed tax relief in our January report.

---

1 OECD Economic Outlook No. 65 (June 1999).

Bracket Creep — With personal income taxes, the real value of personal and spousal exemptions have been seriously eroded through bracket creep. As a result of bracket creep and increasing payroll taxes, the effective personal income tax rate in Canada reached a new historical peak in 1999 of 25%.

It is interesting to note that this lack of inflation protection has the greatest impact on low and middle-income earners.[2] Furthermore, bracket creep has effectively compressed the tax brackets resulting in Canada having the most steeply progressive personal tax system in the G-7. This fact is revealed in the recent *Economic and Fiscal Update*.[3] For example, in Canada the top marginal tax rate is encountered at income levels of about $65,000 whereas in the U.S. the top rate is not hit until earnings of about C$430,000. However, "the greatest disparities in income taxation between the two countries aren't at the top end of the income spectrum but in middle-income brackets."[4]

The Official Opposition believes that if the government truly believed in delivering real, significant tax relief to Canadians, they would make the removal of bracket creep their top priority. They have failed to do so in their Majority Report.

Family-Friendly Tax Policies — One fundamental area of tax reform virtually absent in this Majority Report is the need for some universal recognition in our tax system of the cost of child rearing through the creation of a per child deduction or through the extension of the Canada Child Tax Benefit. The Official Opposition also advocates that the government implement policy options that eliminate the existing child care discrimination in the tax code between single-income earner families and those with both parents in the paid workforce.

Employment Insurance Payroll Taxes — The Official Opposition agrees with the Chief Actuary of the EI fund that premiums should be cut to $2.00/$100 of insurable earnings to sustain the program. The government should cease to use EI contributions by employers and employees as just another tax source.

Corporate Taxation — Another area of urgent reform lies within the corporate tax system. Canada has the second highest corporate statutory tax rates in the G-7[5]. The effective tax rate on the Canadian service sector is the highest in the G-7 and a full 10.8% greater than in the U.S. In addition, the European members of the G-7 have all lowered their corporate income tax rates through the 1990s, while Canada is the only member with a significantly non-neutral corporate tax system that has failed to do so.

There is an urgent need for neutrality within the corporate tax system. That is, different industries should pay the same tax rates. Currently the corporate tax rate is 28% for non-manufacturing industries, while those within the manufacturing sector pay 21%. The Mintz report suggested improving neutrality in a manner that would not decrease federal revenues. However, given the current fiscal position of the government, and given the fact that corporate income tax has the greatest leverage in stimulating economic growth, we believe it is now possible to lower the overall corporate tax burden, **and** return neutrality. We believe this should be pursued on an urgent basis before more damage is incurred to our productivity levels.

Capital Gains Tax — Canada's 40% taxation of capital gains is much heavier than the 20% the U.S. currently imposes on their investors. The heavier burden on internationally mobile financial capital

2 Battle, Ken (1998) "No Taxation Without Indexation", Caledon Institute of Social Policy.

3 The *Economic and Fiscal Update*, 1999, p.104.

4 Rubin, Jeff (1998) "Who's Really Paying Down The Debt?" CIBC Economics.

5 The *Economic and Fiscal Update*, 1999.

tends to create an investment bias that favours the U.S. Furthermore, those individuals employed in the high-technology sector face a more onerous treatment on capital gain from employer stock options vis-à-vis their U.S. counterparts. Because of the mobility of these high-technology workers, taxation in a global context is more important than for many other sectors of the economy. Thus, not only do the firms in the 'new economy' have to pay corporate income taxes that are out of line domestically and internationally, but these companies also have to work much harder at attracting and retaining new hires because of higher capital gains taxes. Therefore, part of any tax reform must consider lowering the tax burden on capital income.

Our long-standing policy to halve the inclusion rate for capital gains taxes remains and we believe the government should consider more fundamental reductions.

The Official Opposition also recommends the complete elimination of capital gains taxes on gifts of listed securities to encourage worthy social investment in charities and other not-for-profit organizations such as schools, cultural centres, co-op housing programs, etc. This is particularly relevant today with shrinking public monies available for government grants and a public increasingly unwilling to offer annual grants through publicly funded granting councils. We believe this is a much more effective way to bring financial stability to these sectors while keeping them more accountable to the citizens they serve.

Finally, with regards to the issue of homelessness, the Official Opposition will await the government's report on how to deal with this very serious problem. However we do have some concerned that they are missing obvious impediments to increasing the stock of rental housing in Canada. These include disincentives like rent controls, legislation that prevents landlords from evicting unruly tenants and the high capital gains taxes that remove any incentive for individuals to invest in housing. All of these areas need to be fully examined to determine what needs to be done to address the root cause of this problem.

In conclusion, the Official Opposition believes that government needs to affect public policy in a manner consistent with improving the welfare of all Canadians. Thus, the imperative of government is to provide the proper mix of goods and services and impose an appropriate level and mix of taxation. To achieve that balance requires a long-term focus in a global context and the creation of a long-term plan, so that any short-term actions, policy decisions, will move in the appropriate direction. As the Auditor General noted in his most recent report to Parliament, this absence of any solid long-term planning has been reflected in the government's year-end spending sprees that have regularly blown their spending estimates by multi-billions of dollars.

To our mind, that ad hoc form of government indicates weak fiscal and political leadership that ill-serves Canadians. To that end, the Official Opposition will be presenting our comprehensive fiscal and social plan to the Finance Minister in January with our vision on how to lead a stronger Canada into the new millennium.

Dissenting Opinion of the Bloc Québécois

Report of the Standing Committee on Finance

The Bloc Québécois wishes to disassociate itself from the report of the Liberal majority, because their report tends to mask certain realities, and even tragedies, that are the direct result of the policies implemented since the start of the decade. The Bloc Québécois notes that there are profound differences between the recommendations in the report, and the recommendations put forward by the Bloc Québécois. In our opinion, the recommendations in this report gloss over the social and economic realities of Quebeckers and Canadians as well as ignoring the constitutional responsibilities of the provinces.

Promising but poorly targeted tax recommendations

The Bloc Québécois notes that the majority report's recommendations on lightening the personal income tax burden target higher income earners and only punctually attempt to remedy the injustices caused by the current tax system's partial indexation.

It is regrettable that the report contains no recommendation calling for the re-establishment of full indexation of the federal tax system. Partial indexation[1] of personal income tax has enabled the federal government to take in significant additional amounts of income tax revenue. Between 1993 and 2001, the federal government will have collected an estimated $17.6 billion in additional income tax, thanks to non-indexation.

Raising tax thresholds by 15% would bring the $29,590 tax threshold to $34,029, which is where it would have been in 2002 if it had been indexed since 1993. That would be good news. But after 2002, the non-indexed thresholds will once again start to penalize the taxpayer. So the problem will still be there.

For the Bloc Québécois, the progressive elimination of the 5% surtax and the reduction of the taxable capital gains proportion from 75% to 65% are recommendations that would help only the wealthiest members of society. The Bloc Québécois estimates that eliminating the 3% and 5% surtaxes would enable 61,000 taxpayers with incomes above $250,000 to save on average more than $9,300 in income tax every year. But for taxpayers whose incomes are between $30,000 and $70,000, the average income tax savings will only be $200.

With respect to corporate taxation, the Bloc Québécois notes that the majority report incorporates some of the recommendations of the Technical Committee on Business Taxation (Mintz Report). The Bloc Québécois would like to point out that a number of the recommendations by the Technical Committee were controversial, even within some employer associations.

1 Or non-indexation when inflation falls below 3%.

The Bloc Québécois cannot support certain of these recommendations, in particular the proposal to make provincial taxes on corporate capital non-deductible for purposes of calculating federal income tax, which would penalize Quebec firms in particular.

Health, and respect for provincial jurisdictions

The Bloc Québécois notes that the majority report simply ignores the entire question of social transfers to the provinces and the consensus on restoring them. Cuts in social transfers have led to major crises in the health-care services delivered by the provinces, and have meant for Quebec an annual shortfall of $875 million in the area of health care alone.

In addition, the Bloc Québécois's own pre-budget consultations found that a vast majority of Quebeckers want major re-investment in social transfers. A recent survey in the newspaper *La Presse* showed that 54.4% of Quebeckers think transfers for health, higher education and income security should be priorities for the federal government.

Instead of calling for increased social transfers to the provinces, the majority report favours encroachment on provincial areas of jurisdiction, "urging" the federal government to pursue the initiatives announced in its 1999 Budget and the most recent Speech from the Throne. The Bloc Québécois cannot support such recommendations.

The Bloc Québécois recommends what Quebeckers want, which is in agreement with the consensus of the provincial Finance ministers: that the federal government re-establish social transfers to the provinces at their 1994 levels.

Employment insurance

The Bloc Québécois deplores the fact that the majority report contains no recommendation designed to offer a better solution or to improve accessibility to the employment insurance plan for workers who lose their jobs. In our opinion, the Liberal majority's report, by its silence on this issue, endorses the dubious practice of making everyone pay premiums and then depriving 58% of the unemployed of the benefits to which they should be entitled, so that Ottawa can garner staggering annual surpluses.

Still waiting for social measures...

The absence of any recommendations on social investment and the insensitivity of the majority report to the pressing daily problems currently confronting hundreds of thousands of Quebeckers and Canadians is striking and entirely unacceptable.

There is a huge need for social housing. In Quebec alone, almost 518,700 people needed social housing in 1996, but only 63,000 units were available. The situation is only getting worse. Since the

federal government withdrew in 1994, it has been honouring the operating expenses of already existing social housing units only. It is desperately urgent that we tackle the problem of homelessness. The federal government's inertia in this regard leaves the homeless on their own, with nowhere to live. In the region of Ottawa — Hull alone, 47 homeless people have died in the past 18 months.

Infrastructures

With regard to the creation of a new infrastructure investments program, the Bloc Québécois disagrees with the majority report, which wants the federal government to make such a program and its component investment subject to "the test of a Productivity Covenant" — a Covenant that has come out of nowhere and has never been the subject of a discussion or debate in the House of Commons.

The Bloc Québécois considers that the introduction of a Productivity Covenant would represent a real danger for social, environmental and even cultural policies, because by definition these policies have not been expected to take into account whether something is or is not profitable in the strictly economic sense.

The Bloc Québécois would like the majority report to reflect the consensus of the provincial premiers, who have agreed that infrastructure investment should be based on the following principles:

- Concrete strategic criteria
- Subject to the approval of the provincial and territorial governments
- Flexible approach
- Funding mechanisms consistent with current provincial budgetary frameworks
- Equitable distribution of federal funding among the provinces

Finally, the Bloc Québécois would have liked the Finance Committee to propose the development of a genuine shipbuilding policy for Canada — another Canada-wide consensus that the Liberal majority on the Committee preferred to ignore.

Quebec priorities clearly expressed

Lastly, it should be recalled that the Bloc Québécois, when it held its own pre-budget hearings across Quebec, proposed the following measures to the people of Quebec and received their approval:

Starting in 2000-2001

• tax reductions	$6 billion
• restoration of social transfers	$3.7 billion
• return to a true employment insurance plan	$7 billion
• support for structural investment	$3 billion
• debt reduction	$3 billion

When the Bloc Québécois appeared before the Committee, on December 2, the Committee Chair acknowledged the value of these proposals and the respect for a balanced budget which would result from them for the next five years.

However, the Liberal majority has responded only very partially to Quebec's concerns. All that can be done now is to hope that the Minister of Finance will display some respect for the choices and priorities clearly expressed by the people of Quebec.

Benchmarks for a Millennium Budget

The New Democratic Party
Minority Report to the Finance Committee

Lorne Nystrom, MP
New Democratic Party Caucus
Finance Critic

December 1999

"The Committee has chosen to use tax reform/relief as the primary vehicle for promoting increased productivity ***not because we know*** *that there are very specific and definitive links between productivity and taxation,* ***but primarily because of what we don't know.****" (emphasis added)*

In these words, the Majority Report of the Finance Committee delivers its empty rationale for recommending $46 billion in tax cuts for high-income earners as the priority for up-coming budgets. This blind faith in the virtue of tax cuts for the wealthiest in Canada is typical of the Liberal Government's position in the debate about what to do with the predicted federal surpluses.

It is a debate that should be about setting goals for improving the quality of life of all Canadians. Having set and met financial targets on eliminating the deficit, the prospect of large surpluses now allows Canadians to meet such emergencies as the crises facing the homeless and Prairie farm families and to set and meet targets to raise the standard of living of all Canadians. To meet the target we set for ourselves 10 years ago to eliminate child poverty. To ensure that all our children are given the best possible start in life. To preserve our public health care system against the threat of American-style two-tier private medicine, and to improve it by including home care and pharmacare. To offer Canadians access to the world-class post-secondary education and training they need to thrive in a rapidly changing economy without crushing student-debt-burdens. To invest in the infrastructure, in roads and public transit, needed to assure the continued growth of our economy. And to offer in balance with these priorities needed tax relief that will benefit all Canadians in the form of reduction of the GST.

But the Committee preferred the message of the Business Council on National Issues (BCNI), that the real urgency was to give more and bigger tax breaks to those who need them least. "The greatest economic gains will be achieved when marginal tax rates, especially the highest ones, are reduced," according to the Majority Report.

New Democrats reject the Committee's unbalanced approach and recommend that the key priority be to make the investments necessary to help reverse the erosion in Canadian living standards and the growing divisions in Canadian society. This includes investments in our children, our communities, our health care and education systems, our environment. At the same time, tax relief should be delivered in a way that meets these same goals by directing it to those who need it most and where it will have the most beneficial impact on the economy: reduction and eventual elimination of the GST.

With a projected budget surplus of $100 billion over the next 5 years, Canada has a unique opportunity to undo much of the damage to household budgets, public services, and living standards from the cutbacks of the 1990's.

If instead, the government adopts the recommendations of the Majority on the committee to cut taxes for the well off and to freeze public spending at current levels, (i.e. at 1949-1950 levels in real terms) Canadians will continue to see public programs erode, incomes polarize, and the depths of poverty and privation in our society increase.

Canada's social deficit is as pressing and as damaging to Canada's future as the fiscal deficit that has been eradicated through a decade of belt tightening. The real test of the Millennium budget will be to see whether the same commitment to targets, timetables and benchmarks for progress can be applied to the social deficit — or whether the trust of Canadians that better finances would lead to better lives for all has been no more than a cruel Liberal joke.

This report is primarily addressed to how the projected surpluses in coming years should be invested to meet social goals in such areas as health, education, including early childhood care and development, and infrastructure, and to provide balanced tax relief. But we are also faced with emergencies — homelessness, the crisis in agricultural incomes, and child poverty — which call for immediate action.

Health Care

In recent years we have seen a growing fear in Canadians that the health care system won't be there for them when they need it. Canadians are outraged by the state of what was one of the most efficient health care systems in the world, and the prospect of losing it entirely through a process of creeping privatization.

The government should take immediate steps to implement two major components of its promised health care agenda — home care and pharmacare. Last year, the government said that their injection of funds into health transfers was a first step to restoring and rebuilding our public health care system. Several of Canada's health practitioner groups, from nurses to doctors to hospitals have called on the federal government to inject immediately an additional $1.5 billion in funds this year and to bring in a funding mechanism to ensure that federal cash transfers are not eroded by inflation. New Democrats, who pioneered public health care in this country and intend to win the fight to maintain it could not agree more.

A Secure Future for All of Our Kids

We have recently marked the 10th anniversary of the House of Commons resolution to end child poverty by the year 2000. Yet since 1989, 500,000 children have been added to the ranks of the poor, and one in five of our children is growing up in poverty. In Toronto, that number is two in five. This situation is unacceptable, and it is reversible. Most Canadians recognize that the security, health and well-being of our children and their families will be the principal asset Canada takes into the next Millennium. To allow them to realize their potential, and the potential of this country, we need to provide universal, accessible, quality programs for childcare and early childhood development; improve direct assistance to poor families through a broadened and enhanced National Child Tax Benefit; eliminate the claw-back for parents on social assistance; and improve maternity and parental leave for both parents.

The Committee heard overwhelming and irrefutable evidence that the best investment a society can make to secure its future is to invest in its children. As the Saskatchewan School Trustees Association put it:

All of the evidence related to brain growth and development and later educational success points to the fact that young children must become the primary targets of our social investment. Canada's place in the new economy and improved productivity will only come from the investment we make now in children's well-being.

The *Early Years Study*, conducted by Fraser Mustard and Norrie McCain, was cited time and again, by witnesses and by the Majority Report itself, as the definitive authority on child development. It stated that the critical periods for a child's optimum development were over or waning by the time a child is six years old. No clearer message could be delivered about why kids can't wait.

But the Liberal majority, and its supporters in the Reform and Conservative parties, was unmoved:

"Poor kids are not always disadvantaged... Although scientific research lends weight to arguments about making substantial investments in the early years of children's lives, we note that this message is not new."

The Committee makes no recommendations with respect to child care and early childhood education except to endorse the development of the National Children's Agenda, which remains conceptually vague and lacks specific spending commitments. New Democrats believe that for this project to succeed, the year 2000 budget has to include a substantial immediate federal financial commitment of $2.5 billion for early childhood care and education; a $1 billion improvement to the National Child Benefit for all low-income families, including those on social assistance, and an additional $1 billion for expansion of maternity and parental leave under the EI program. This should be the start of a five-year social investment plan for Canada's children aimed at making significant reductions in the level and depth of child poverty, and endowing every child with the conditions for healthy development, opportunities for learning and quality care throughout their formative years, as recommended by Campaign 2000.

Prairie Farm Families

Canada's grain farmers are suffering from the worst year for farm income since statistics were first kept in 1926. In the last 8 years federal support has dropped by 64%. Both the U.S. and Europe spend more than twice as much as Canada subsidizing their wheat producers, rendering Canadian farmers incapable of competing on the international stage.

The Canadian agenda at the World Trade Organization (WTO) in Seattle was to eliminate all farm export subsidies — an agenda which the U.S. and European Union flatly rejected. Having failed to lower the bar at Seattle, New Democrats believe it is imperative that the federal government take immediate action to help Prairie farmers overcome this income disaster by providing the $1.3 billion in emergency funding requested by Manitoba and Saskatchewan.

Homelessness

The spectre of 200,000 homeless Canadians facing another winter on the streets of our cities is not just a national disaster — it's a national disgrace. Yet the Committee wants to take a "wait and see" approach — but wait for what? To see how many die on the streets this winter? Across the country, there are thousands upon thousands of families struggling to find affordable housing. It is imperative that as a nation we address housing as a right not a privilege. New Democrats call on the federal government to take immediate and decisive action and adopt a national housing strategy which recognizes housing as a basic right — backed up by a commitment to invest an additional 1% of total program spending on housing.

Post-Secondary Education

The current crisis in post-secondary education must be addressed. Between 1990 and 1999, tuition fees have increased by 126%. During the same period student debt has risen from an average, upon graduation, of $8,000 in 1990 to $25,000 in 1998. The research infrastructure of Canadian colleges and universities is among the least supported in the OECD. Moreover, of the 29 members of the OECD, Canada and Japan are the only two countries without a national grants program.

Federal New Democrats do not approve of the current arrangements which give private banks a larger share and control of the student loans program. We believe that the federal government should redirect the funds from the Millennium Scholarship Fund to a system of grants based on need. New Democrats believe that the federal government should allocate funds to reduce and gradually eliminate tuition fees.

Tax Relief

New Democrats have always been advocates of a fairer tax system — because a fair tax system improves social equality and makes the economy work better at the same time. Like good public services, fair taxes succeed on both ethical and efficiency grounds. As Jim Stanford (CAW) points out:

> *"If you look at the distribution of market income in 1997, the ratio of top fifth to bottom fifth is 24:1. After taxes and transfers it falls to 8:1; if you factor in the value of public services, the ratio of income inequality falls to less than 4:1."*

But greater equality does not factor into the Majority Committee's recommendations on tax cuts. Instead, the Committee based its recommendations on the opposite principle of cutting taxes now for the wealthiest. The four major components of the Committee's plan - reducing the capital gains tax, dropping the middle income tax rate, eliminating the 5% upper income surtax, and raising the thresholds for the two top tax rates, would cut taxes by:

- $11,650 on those with an average taxable income of $475,000;

- $1,140 to someone with a taxable income of $42,000;
- $3 to someone with taxable income of $20, 400.

This is patently unfair. New Democrats would instead direct tax relief to the working poor, the middle class and small businesses, by reducing the GST by 1% immediately and gradually phasing out the GST as the Liberal government promised to do in 1993. This would put money back into the hands of those most likely to spend it to boost small business and job creation, direct tax relief to those who pay no income tax, and cut taxes in a way that will not affect provincial income tax revenues which support health, education and other social services.

New Democrats would also put an end to annual tax increases by stealth by gradually restoring full indexation to the income tax system over the next five years.

Several categories of workers face particular and sometimes discriminatory problems with our tax system. Cultural workers who experience real fluctuations in their annual income, mechanics who need to provide their own tools as a condition of employment but are not allowed to deduct the cost of this equipment, the disabled who suffer from degenerative diseases but whose disabilities are not reflected in the definition of disability for tax purposes, all need special consideration and accommodation if the benchmark of tax fairness is to be met. New Democrats would correct these injustices.

Employment Insurance

One of the biggest contributors to the extent and depth of poverty in Canada is the erosion of support for Canada's unemployed, and the fraudulent misuse of EI funds for purposes as diverse as paying down the deficit to providing tax cuts for the rich. EI monies are collected disproportionately from lower income workers to protect their earnings in case of unemployment.

To continue to confiscate these funds, as the Majority on the Committee recommends, to give tax cuts which will go disproportionately to upper income Canadians is to entrench fraud and theft as permanent features of Canada's tax transfer system. New Democrats want to see EI funds separated from government accounts, and used to improve benefits for Canada's unemployed by easing entrance requirements, raising the benefit level to 60%, and eliminating discriminatory features that leave 60% of the unemployed overall, 70% of unemployed women, and 85% of young people out of the system entirely.

Infrastructure

The federal government must help address the mounting investment deficit in our environmental, transportation, and housing infrastructure, and community safety. Infrastructure investments are the basic building blocks of the Canadian economy and help ensure a healthy population. Canadians' standards of living are compromised by years of neglect and cutbacks by the public sector.

As the Federation of Canadian Municipalities has recommended, the federal government should commit $500 million in the upcoming budget for investments in core-infrastructure upgrades and transportation infrastructure improvements as part of a long-term public investment strategy. In addition, the federal government should commit funds to ensure that where communities are dependent on RCMP, the funds are adequate to ensure community safety.

Environment

The federal government needs to recognize that protecting and preserving Canada's environment is an important part of the legacy we leave our kids and should take steps to provide sufficient resources to ensure that we protect and improve air and water quality, clean up contaminated waste sites, reverse the devastating cuts to Parks Canada and ensure adequate resources to restore and maintain essential services, and meet our Kyoto commitments with respect to climate change.

International Development Assistance

Canada has been lagging behind most other OECD countries in the delivery of international development assistance. International aid experts project that Official Development Assistance (ODA) will fall to 0.27% of GNP in 1999-2000, a 30-year low. New Democrats support the position of the Canadian Council for International Cooperation that the federal government commit to a plan to improve aid targeting and rebuild ODA to 0.35% of GNP by 2005-06. New Democrats recommend that an additional $300 million be directed immediately to international assistance, not including the funds set aside for debt cancellation in 2000-2001. Over the longer term Canada should strive to reach its long stated target of 0.7% of GNP for Official Development Assistance.

Dissenting Report — Progressive Conservative Party of Canada

While the Progressive Conservative Party of Canada supports the general direction of the House of Commons Standing Committee on Finance Pre-Budget Report, the intransigence of the Chairman on several key items necessitates a dissenting report.

Our mission

- For Canada to succeed in the global, knowledge-based economy, we must be innovative, productive, invest in skills development, and seek out new opportunities around the world. The Liberal track record, however, has been declining productivity and investment, record levels of taxation, and punishing regulations and red tape.

The Facts

- In the last 5 years there have been 50 different tax increases and Canadians now pay, on average, about 47% of their income in taxes. Government revenue has increased by $40 billion since 1993 including a hike of $24 billion in personal income tax revenue.

- Canada has the highest personal income taxes in the G-7 and the 2nd highest corporate taxes in the OECD.

- Personal income taxes, as a percentage of family expenditures, increased 15% for the average Canadian family from 1992 to 1997.

- Since 1990, American net disposable income per capita has climbed over 10%, while Canadian real disposable income fell by 8%.

- The Conference Board of Canada states that the number of skilled Canadians moving to the United States has increased from 17,000 in 1986 to 98,000 in 1997.

- The unemployment rate in Canada is still nearly double the U.S rate of 4.2%.

RECOMMENDATIONS:

1. PERSONAL AND CORPORATE TAX REFORM

Canada needs significant broad-based tax relief and tax reform. A P.C Party tax policy tax force is currently studying how to make Canada's tax system more competitive with our major trading partners and will report this winter. At this time, the PC Party supports:

- **Reform Corporate Taxes**

The government should implement the corporate tax reform recommendations of the Mintz report. Tax reduction combined with tax reform can ensure that all sectors benefit from corporate tax reform. Corporate tax reform should seek to reduce the distortionary nature of our tax policy, reduce profit insensitive taxes, and in general reduce our corporate tax burden, which is currently the 2nd highest in the OECD.

- **Reduce Employment Insurance Premiums**

EI premiums are a regressive tax on the poorest of Canadians. An individual making $39,000 per year in Canada pays the same EI premiums as an individual making $300,000 per year. The EI fund should not to be used as a fund to pad government books. A recent study shows that only 40% of those who pay into the system actually qualify when they need the fund. **The Progressive Conservative Party of Canada proposes that EI premiums be reduced to $2.00 per $100 of insurable earnings, from the current level of $2.40.**

- **Fully Index the Income Tax Brackets**

The tax system was de-indexed at a time when the deficit was a serious problem. However, the government is now in a surplus position. Approximately 1.4 million low-income earners have been pushed onto the tax rolls and another 2.5 million individuals have been moved into higher tax brackets due to partial indexing. **The P.C Party of Canada recommends that full indexing be restored immediately.**

- **Increase the Basic Personal Exemption Toward $10,000**

The P.C Party of Canada supports increasing the basic income tax exemption toward a target of $10,000.

- **Lower General Capital Gains Rate**

Canada's capital gains rate is twice that of our southern neighbors and is one of the contributing factors to the "brain drain" to the U.S. In the Canadian high-tech sector companies are increasingly rewarding employees with stock options. However, these employees are being heavily taxed when they sell these stock options and this is a contributing factor to our brightest minds leaving for the U.S., where the capital gains rate is approximately one-half Canada's rate. **The P.C Party supports lowering the capital gains inclusion rate from the current level of 75% to 50%.**

2. SET FIRM DEBT REDUCTION TARGETS

The debt, and the taxes needed to service it, is pulling down Canada's standard of living while money and investment moves elsewhere. As long as we continue to have the debt, we remain vulnerable to

interest rate changes. **The PC Party of Canada proposes that we aim for a debt-to-GDP ratio of 50%.**

3. ELIMINATE THE REMAINING CAPITAL GAINS ON GIFTS OF LISTED SECURITIES

The PC Party supports the elimination of the remaining capital gains tax for gifts of listed securities. This is the single most important step that government can take to increase funding for the charitable sector.

4. INCREASE THE RRSP FOREIGN CONTENT LIMIT TO 50%

An Investment Funds Institute of Canada study on the impact of the Foreign Property Rule found that an increase in the limit to 30% over the last 5 years would have resulted in a 1.6% increase in annual returns. This increase would have added about $32,000 to the average RRSP over that time and lowered overall portfolio risk to the investor. **The P.C Party of Canada believes the RRSP foreign content limit should be increased to 50%.**

5. HIGHER EDUCATION

More and more students are forced into bankruptcy each year. In 1997,12,000 newly graduated post-secondary students went into bankruptcy according to HRDC. **The PC Party of Canada supports a full restoration of the CHST. Secondly, the government needs to address the issue of capital improvements to universities and thirdly the government needs to implement a higher portion of grants to loans.**

6. INTRODUCE A NATIONAL HIGHWAY POLICY

The federal government must specifically assign a greater percentage of the fuel tax collected to be made available for highway improvements in conjunction with provincial funds. **The proportion of fuel and highway taxes reinvested in highways should be increased from the current 5% to 15%. The P.C Party urges the government to impiement a national highway policy, which establishes funding levels and standards across the country.**

7. IMPLEMENT A NATIONAL SHIPBUILDING POLICY

The PC Party of Canada endorses the measures put forward by the Canadian Shipbuilding Association to help the shipbuilding industry. **This will include tax credits for some of the costs relating to work conducted in Canadian shipyards, improved tax treatment of lease financing for the purchase of a ship built in a Canadian yard, and loan guarantees from the government for ships built in Canadian shipyards.**

8. RESTORE ADEQUATE HEALTH CARE FUNDING

Today our healthcare system is critically underfunded and will most certainly be further strained by Canada's aging population. **The government must restore full funding now, not by 2003-04 as planned**

9. ADDRESS THE LEAKY CONDO ISSUE IN BRITISH COLUMBIA

Between 1983-1997 in British Columbia's overheated housing market an estimated 50,000 faulty condominiums were built in the Lower Mainland. The average cost to repair a condo to the homeowner is $23,300 per unit with many families and seniors facing repair bills in the range of $50,000-$60,000. **The P.C Party of Canada supports allowing eligible homeowners to withdraw up to $20,000 of their RRSPs without penalty for use in repairs, to be repaid over 15 years. Secondly, we would match the provincial government's sales tax relief with a GST rebate on qualified repairs and renovations for leaky condominiums. Thirdly, we would allow income tax deductibility for repair expenses for the condo owners.**

10. A GREEN BUDGET

The Progressive Conservative Party supports tax incentives that promote research and development in new energy efficient technologies and green sources of energy. We also support an aggressive tax regime for business and individuals who invest in highly energy-efficient technologies and who utilize renewable sources of energy. The PC Party supports a reduction in capital gains taxes for landowners who donate ecologically sensitive lands and the creation of a stewardship fund, jointly funded by private and public interests, that will help pay for measures designed to assist the recovery of species at risk.

11. RESTORE PARLIAMENTARY CONTROL OVER ESTIMATES

The PC Party endorses a system whereby a certain number of departments selected by the Opposition would have their Estimates scrutinized by Parliament, without a time limit.

12. IMPLEMENT A "REGULATORY BUDGET"

The PC Party would implement a "Regulatory Budget," which would detail estimates of the total cost of regulation, including the government enforcement costs and the cost of compliance to individual citizens and businesses.

13. INTRODUCE A TAX CREDIT FOR EMERGENCY SERVICE VOLUNTEERS

Currently, a tax-free allowance of $1,000 is provided only to those Emergency Service Volunteers who receive remuneration for their services. This policy discriminates against rural firefighters for

example, who rarely receive any compensation. **The *Income Tax Act* should be amended to provide a tax credit of $500 to all Emergency Service Volunteers.**

14. IMPLEMENT APPROPRIATE TAX TREATMENT FOR PRIVATE WOODLOTS

Sound forest management practices must be encouraged. **The PC Party recommends that the government allow forest maintenance expenses to be deducted against income. As well, private woodlot operators should be provided with the same capital gains tax exemption currently available to farmers.**

15. AGRICULTURE

Currently farm aid programs such as NISA, and AIDA clearly fail to meet the real needs of farmers across Canada. Significant reform, including a possible return to the GRIP program, and improved funding is required. Canadian agricultural policy must reflect regional realities and seasonal work issues must be addressed. An agriculture/horticulture "T-4" form, which would enable Canadians to earn a certain amount tax-free when employed seasonally in the agriculture/horticulture sector, should be considered.

Respectfully submitted by:

Scott Brison, PC Party Finance Critic

Kings — Hants

MINUTES OF PROCEEDINGS

THURSDAY, DECEMBER 9, 1999

Meeting No. 43

The Standing Committee on Finance met *in camera* at 1:04 p.m. this day, in Room 371, West Block, the Chair, Maurizio Bevilacqua, presiding.

Members of the Committee present: Maurizio Bevilacqua, Roy Cullen, Nick Discepola, Roger Gallaway, Albina Guarnieri, Sophia Leung, Yvan Loubier, Lorne Nystrom, Gary Pillitteri, Karen Redman, Monte Solberg and Paul Szabo.

Acting Members present: Paul Forseth for Richard Harris.

In attendance: From the Library of Parliament: Odette Madore and Jean Soucy, Researchers; Marion Wrobel, Senior Analyst.

In accordance with its mandate under Standing Order 83.1, the Committee resumed its Pre-Budget Consultations. (*See Minutes of Proceedings, Tuesday, November 2, 1999, Meeting No. 2*).

The Committee proceeded to consider a draft report.

It was moved, — That, notwithstanding the motion of December 7, 1999, the recommendation in paragraph 1.47 of Chapter 1, read: "The Committee recognizes the government's commitment to this formula over the course of this Parliament and recommends therefore that it be honoured. In the next Parliament, however the Committee recommends that the government not now bind itself to any formula."

The question being put on the motion, it was to.

It was moved, — That the draft report be adopted as the First Report of the Committee.

The question being put on the motion, it was agreed to.

It was moved, — That the title of the Report be:

"Budget 2000

New Era . . . New Plan".

The question being put on the motion, it was agreed to.

It was agreed, — That the Committee append to its report supplementary or dissenting opinions from the opposition parties provided that they be no more than 5 pages in length (font = 12; line spacing = 1.5) and submitted to the clerk in both official languages no later than 5 o'clock, p.m., on Thursday, December 9, 1999.

It was agreed, — That the Chair, researchers and clerk be authorized to make such typographical and editorial changes as may be necessary without changing the substance of the report.

It was agreed, — That the Chair be instructed to present the First Report of the Committee to the House.

It was agreed, — That the Committee print 8500 copies of the report in English and 1500 copies in French, with a distinctive cover.

At 1:24 p.m., the Committee adjourned to the call of the Chair.

Pat Steenberg

Clerk of the Committee